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Devalued Sterling No Assurance of Economic Stability

By THOMAS I. PARKINSON*
President, Equitable Life Assurance Society of U. S.

Mr. Parkinson, asserting devaluation will not cure Britain's problems, expresses doubt value of pound can hold without U. S. support. Ascribes lower purchasing power of sterling to inadequate production. Warns we should stabilize our own money.

The British pound sterling and its "value" still hold the center of the stage in international—and much domestic—monetary discussion. Unfortunately it is not always clear what we mean when we speak of the "value" of the pound. It was said to be overvalued before the recent devaluation. When the British officially declared its value in terms of the U. S. dollar as $2.80, it was widely declared to be undervalued; and the British officials explained at the time that, if they

T. I. Parkinson

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*Statement by Mr. Parkinson, distributed by the Continental Press Syndicate, Brightwaters, N. Y.

Revise Charter of United Nations!

By ROBERT A. TAFT*
United States Senator from Ohio

Republican party leader, though upholding United Nations, advocates a convention be called to revise its charter. Says, if Russia proves intractable, we should "build within" the United Nations, under the Regional Agreement Clause, and revise both Atlantic Pact and Rio Treaty so as to set up organizations closer to ideals of justice and peace. Condemns mistakes of Yalta and denies isolationism.

The primary basis of American foreign policy has always been, and I believe should be, the maintenance of the liberty of the people of the United States. To secure that liberty we fought the Revolutionary War. To maintain it, and because the American people came to believe that a German victory in either war would seriously threaten the security of America, we cast our lot with those who were opposing an unprovoked aggressor threatening to dominate the world. The justification for the Monroe Doctrine, the key to our foreign policy for a hundred years, was the fear that a colonization of North and South America by European nations would threaten the existence of our North American republic.

Robert A. Taft

The second goal of American foreign policy should be peace unless and until our liberty and our security are threatened. Such a goal is even more essential today

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*An address by Senator Taft before Toledo United Nations Association, Toledo, O., Oct. 24, 1949.

Why Stocks May Rise On Declining Earnings

By WILFORD J. EITEMAN*
Professor of Finance, University of Michigan

Dr. Eiteman, in analyzing price fluctuations in stock market, indicates there is no fixed relationship between stock prices and earnings, as stock quotations merely measure evaluations of those who trade. Lists forces which lead buyers and sellers to enter stock market, and concludes as individuals continue to prefer consumption to investment or to keep savings in liquid form, the price-earnings ratio is certain to remain low.

The Dow-Jones average of industrial stock prices stood at 116.6 on the day before the Pearl Harbor attack. At that time average per share earnings for the 30 Dow-Jones stocks were $12.32. Thus, at the beginning of World War II, stocks were selling at 9.4 times current earnings.

Immediately following the Japanese attack, market quotations declined to 92.9 and then began a slow steady ascent to a 17-year high of 212.5 reached on May 29, 1946. During the four quarters immediately preceding this peak, earnings were $10.24. Thus it will be noted that prices rose

W. J. Eiteman

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*Reprinted from the October issue of Business Review, published by the University of Michigan School of Business. Professor Eiteman is author of **The Stock Market** (with C. A. Dice), **Corporation Finance, Price Determination,** and **Graphic Budgets.**

EDITORIAL

As We See It

The Weaknesses of Socialism and Communism Are Basic. They Cannot Be Eliminated by Tinkering With This and That.

It is encouraging in a sense to observe current indications that there is somewhere in Britain an inkling that mere currency devaluation cannot hope to cure the infirmities from which that nation is suffering. This is the more true, perhaps, by reason of the fact that the symptoms suggest little faith (or at all events less faith that one might have expected) in plans and procedures which entail enlarged rather than reduced public expenditures. It is not easy at this distance to be certain what is what across the Atlantic, but news dispatches indicate that consideration is even being given to the extension of the "austerity" idea to areas which heretofore have been regarded in official circles as quite sacrosanct.

All this may possibly be a reflection of some change of heart, or some newly acquired enlightenment, on the part of the government or the ruling party, or it may be that the rank and file of the British voters have come to some sort of realization of the deadly effects

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Where We Are Going and What to Do About It

By ALBERT C. AGNEW*

Vice-President and General Counsel, Federal Reserve Bank of San Francisco

West Coast Federal Reserve Bank official severely condemns current extravagant government spending as leading to the "collectivist state." Says people are divided into pressure groups each seeking special privileges to detriment of general welfare, while individual self-reliance, independence and mental integrity is on decline. Urges more activity in opposition to socialist trends, and organization of an American Freedom Movement.

What I shall say to you today I say from deep conviction. I am not an alarmist. In fact, my natural inclination is to be over-optimistic, to view the brighter side of life, disregarding the shadows and feeling that, with proper caution, almost every pit-fall can be successfully by-passed. Especially is this true with regard to our country. Since its birth, it has passed through a devastating civil war and four wars with foreign countries and each time its virility, its bountiful God-given resources and the marvelous inventive and industrial genius of its people have enabled it to grow stronger and finer than before. No, we have no fear of foreign enemies, singly or in combination. Our present danger is from within, and let me assure you it is a very real and present danger.

Surely, one would not be bold, but foolhardy, to speak to an audience such as this without being extremely factual. Your profession requires that you be realistic; that you consider and weigh the impact of facts as they are, not as one might wish or imagine them to be. Therefore, I shall confine myself to the discussion of realities and what seem to be their inevitable consequences.

Let us consider together three matters: first, the present situation from an economic and social standpoint; second, the present and probable future consequences of that situation and, lastly, granting the existence of the condition described and its probable or inevitable consequences, what we, as individuals, as a society, and as a nation, can do to counteract or reverse it.

About a century ago, a famous British historian and statesman, Lord Macaulay, said to us:

"Your Republic will be pillaged and ravaged in the Twentieth Century just as the Roman Empire was in the Fifth Century, with the difference that in the devastation of the Roman Empire the Huns and Vandals came from abroad, while your barbarians will be people of your own country."

Lenin, god-father of the Soviet, in 1924 wrote:

"Some day we shall force the United States to spend itself into destruction."

Current Background

Let us consider these statements from the background of what is happening today.

Well, statistics are usually dry, but when they concern your budget, personal or national, they should have careful consideration and appraisal. In such a case, dry statistics, like dry martinis, are potent.

Our present national debt of $255 billion carries with it an annual interest charge—not reduction of principal—in the sum of $5,450,000,000. This alone is over twice the total cost of government prior to World War I. At the present time, we are spending annually for government more than the total cost of the first World War—a billion dollars every nine days—over $111 million daily—nearly a million dollars every 12 minutes and $1,400 every second. We are spending in one year "more than the total value of all life insurance companies in 1943, the chief nest egg of 70 million people." We are told all the gold mined in the world since Columbus discovered America is worth $40 billion. In one year, beginning July 1, 1949, our Federal Government plans to spend $45 billion, or $5 billion more than all the gold produced in the world in 457 years. The Federal Government will spend, during the current fiscal year, nearly 23 times the amount expended during the first year before World War I, without any allowance for debt retirement. We are faced with a current Federal deficit of $5.5 billion for the current fiscal year (against an estimate of $873 million made in January of this year), and all this in a period of peace and comparative prosperity. There exists a Federal debt mortgage of over $7,000 on every American family.

During 152 years, from 1789 to and including 1940, a period including four major wars and several depressions, the Federal Government spent $167 billion. During four peacetime years, from 1946 to and including 1949, the Federal Government spent $177 billion, or $10 billion more in four years than in 152 years.

In a single month in 1949, the peacetime government spent as much as the $3,350,000,000 total cost of government in the four years of civil war.

The total cost of World War I, two years, was $31 billion. The government now spends more than that in 10 peacetime months.

The proposed expenditures for social welfare in 1950 are over $6 billion against $3 billion for 1948; those for resources development in 1950 are $4.4 billion against $2.8 billion for 1948. And so the balloon of government outlay goes up and up. Politicians who are riding the caboose of the gravy-train never willingly allow it to stop or even slow down for fear of being thrown off at some lonely whistle stop.

Government Spending to Counteract Deflation

We are offered the thesis that the budget cannot be cut at a time when private spending shows some moderate decline, because to do so would accelerate deflationary tendencies. What does this mean? Here we are with an economy that is still operating at high levels of employment and production; with a prospective revenue total of $39 billion, eight times that of 1939. Yet we are told we cannot expect to balance the budget. It is, of course the essence of the so-called "compensatory budget" theory that the government should "prime the pump" by deficit spending and expansion of debt in time of depression and should reverse the process by retiring debt in time of prosperity. If the theory that we cannot afford to balance our living expenses except at the peak of prosperity prevails, then certainly it will remain unbalanced most of the time and the present huge national debt will go higher and higher. How long this can go on no one can say, but history is full of examples of the wreckage of currency systems resulting from such insane policies.

If this huge debt were necessary and inevitable, if the money it represents had been and was being frugally and wisely spent we, as loyal Americans, would be the last to complain. But what do we witness? In 20 years the cost of operation of the Federal establishment has increased from $4 billion to almost $45 billion; the government pay roll has risen from 600,000 to 2,100,000; the number of government units has increased from 350 to 1,812; waste, duplication and overlapping go unchecked in an atmosphere of organizational chaos and archaic methods.

Can We Spend Ourselves Into Prosperity?

Not many months ago we were told that economy was the order of the day and that substantial reduction of our national mortgage was on the program. But now we hear again that old, repudiated and discredited cry, "We will spend ourselves into prosperity" and more of that political buncombe to the effect that since we owe the money to ourselves, the size of the national debt is immaterial. Federal debt can only be paid by spending less than we collect in taxes or by taking the money out of the hides of the people through higher taxes. Practically speaking, not one cent of new wealth is produced by government. The tax bill in this country has almost reached the point of diminishing returns and, unless we call a halt, will reach the point where private incentive is destroyed and the risk of new capital is no longer attractive because of tax burdens. The next step is repudiation or still further dilution of dollar value, followed by economic chaos.

So far we have dealt with figures, but what about the more important if less tangible moral degeneration of our people which has been the inevitable by-product of the loose thinking, profligacy and violation of fundamental economic precepts which, for the past decade, we have witnessed in government? Fifty-eight per cent, or 83 million of our population have had no adult experience with a pre-war administration. Most of our teenagers have lived their entire lives under the cloud of some sort of "ism"—socialism, collectivism, spendism, waste-ism, tax-ism, or Uncle Sam-will-provide-for-you-from-the-cradle-to-the-grav-ism. They have been taught to spend as they go, and take no thought for the morrow, to consider frugality an out-moded custom and to demand more and more pay for less and less work. The terms "big and bad" have been linked together as inevitably as "sulphur and molasses," "chills and fever," "death and taxes." Nor have these soporifics, adminstered in over-doses from Washington, been confined to our youngsters. Many of us oldsters have, perhaps unconsciously, come to applaud each successive assumption of state, local and individual burdens and obligations by government until we are well on the road to complete bureaucracy. But we have paid for this buck-passing to Uncle

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*An address by Mr. Agnew at Convention of the National Association of Supervisors of State Banks, Reno, Nev., Oct. 26, 1949.

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Inflation Psychology And Common Stocks

By HAROLD B. DORSEY*

President, Argus Research Corporation

Commenting on current fears of further inflation arising from prospective Federal deficits, Mr. Dorsey reviews current economic developments making for and against higher prices. Notes money supply has not been increasing and doubts any further rise because of deficit financing will affect prices or corporate earnings substantially. Cites low stock prices in Britain under inflationary impetus and previous American experience as evidence inflationary fears do not necessarily lead to higher stock prices.

In the last couple of weeks about 75% of the inquiries coming to us have referred to some aspect of inflation. In view of this evidence of broad interest, it seems advisable to consider in some detail the various questions that are most frequently submitted for comments.

Harold B. Dorsey

I must report that the most popular reaction runs along the line: "The government will probably run at a deficit of $5-$8 billion in the current fiscal year, and that this means inflation; consequently, one should immediately invest in common stocks." Very often the reasoning does not go any deeper than that and it should be obvious that the answers are not that simple.

Even though current estimates of government receipts and expenditures may indicate a deficit of that proportion, we must remember that President Truman does seem to have an inherent dislike for Federal deficits, even though this aversion does not seem to be strong enough to bring pressure for lower expenditures. A fair number of Congressmen feel somewhat the same way, and as indicated by the President's remarks on taxes last week, the prospects for higher taxes next year should not be ignored. Since 1950 will be a Congressional election year, it does not seem to be politically logical that higher taxes will be levied on voting individuals. But corporations don't vote! Although higher corporate tax rates next year would not influence the government's tax receipts from corporations in the current fiscal year, or in the calendar year 1950 (unless the plan is adopted to make corporate tax collections on a more current basis), corporations would tend to accrue and sterilize their tax liabilities at the higher rate.

But let us presume that the government is going to run a deficit of several billion dollars. The presumption that this would mean "inflation" has to be examined very carefully. It is on this point that we find so much incomplete thinking. To most people inflation means deterioration in the value of a dollar, which, in turn, means rising commodity prices. We would suggest that one should ask himself "In exactly what way will the government's deficit influence the supply and demand factors for commodities?"

Commodity Prices

Our surpluses of feed grains are very large. The total supply of corn is the largest on record and, together with other feed concentrates, gives a total feed supply which represents 1.08 tons per animal unit, which is by far the largest ever recorded. The cotton crop this year is the second largest ever recorded and, with the carry-over, gives a total supply that is much more than ample for domestic and export demands. The total production of meat estimated for 1950 is the largest of the past three years and would allow per capita consumption at the postwar average level and at least 10% or 12% over the prewar average. The supply of fats and oils is very large.

This same condition of ample supply carries over rather generally into our capacity to produce manufactured goods. There has been a tremendous expansion in productive capacity since before the war. For precisely which commodity is there likely to be an insufficient capacity to take care of all foreseeable demands, even if we were to grant that a government deficit would stimulate consumption? Is it steel, paper, petroleum, or textiles? Temporarily perhaps, but only a brief period of time and certainly not indicative of a basic shortage of capacity.

Fundamentally, commodity prices are most heavily influenced by actual and potential supply and demand, although we do have numerous commodities whose prices are influenced more strongly by government controls. Even for the latter, however, the supply and demand pressures are in the direction of lower prices and the artificial maintenance of these prices at a level that is not economically justified merely stimulates production and thus increases the pressure of the natural economic forces. Pursuing this line of reasoning, and after examining carefully the supply and demand factors, it seems to us that it is quite unreasonable to anticipate that the indicated Federal deficit is going to cause a generally rising trend in commodity prices. Hence the conten-

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*A talk by Mr. Dorsey at opening meeting of season of the Philadelphia Securities Association, Philadelphia, Pa., Oct. 27, 1949.

Getting Your Customer's Appreciation

By KELSO SUTTON*
Consultant in Salesmanship

At this point in his presentation of investment salesmanship, Mr. Sutton illustrates techniques in demonstrating general advantages to prospects and customers in making investments, as well as calling attention to peculiar merits of the securities offered. Warns against using hearsay evidence, and stresses value of factual demonstration. Explains methods of building up a sales solicitation through demonstration and methods of meeting customer's objections.

Selling success does not come with one big order, or in any sense overnight. Success in selling is an accumulation of small points of progress. You may go along for quite a while and be picking up a few new accounts here and there, and you are getting some fairly good orders from your present accounts and then, one day, you will realize that your business is much more substantial than it was six months ago. Yet, when you review what you have been doing, you can't put your finger on any one particularly big sale, or big account that would account for this more substantial business that you are getting.

Kelso Sutton

You never can tell when you are going to arrive at a higher level, in your sales volume, than you have been doing. You go along and things don't break, and then finally some of them do start breaking for you, and sometimes when they start breaking, even three or four new accounts make a tremendous amount of difference in your business.

A lot of salesmen always try to put over the big push, and think that if they get that one big objective that it means success for them. Well, that rarely happens. We all want to knock off the big accounts, but actually there are not too many of them around to obtain.

A more substantial, and a healthier kind of business is this gradual accretion of ordinary accounts that, in time, add up to something that will return a very good living for you.

Any of you who are new to this business of selling securities, you certainly should not become discouraged early in the game. It is not just the sale of securities that might discourage you, when you first start in selling, it is the sale of anything, product or intangible services.

I think you will realize from the subject matter that we have been covering so far in these lectures, that there is a great deal to good salesmanship. There are many things that a man has to undertsand and be able to apply in order to do a good job, when he is out selling.

Let us suppose that, somehow or other, you acquired $1,500, over and above your ordinary income, that someone left it to you, or you hit the jackpot somewhere or something like that, and you had this $1,500. Now, you are making a pretty good living so you and your wife sit down one evening and between the two of you, you decide that that $1,500 was not to go into savings and that you could do just what you wanted to do with that money.

So, you have a family discussion on how you are going to spend that money. Your wife has been thinking of getting an oriental rug for the living room. That is one suggestion that has been put forth. On the other hand, you have kind of had your mind on a new automobile. That amount of money, with your present car, would get you a nice new one. Well, then, your wife also puts forth the suggestion that, maybe, if you don't get the oriental rug, it is probably about time that she got a nice fur coat, and that $1,500 would buy a very fine one for her.

You may think, "Well, maybe I can get along with this car. Perhaps we should get a new set of dining room furniture."

So you go along and you think of all these tangible things that would be very pleasant to spend your money on. Now, all those physical things would be nice to have. You would certainly like to see your wife with a nice new fur coat, and your thinking, underlying the fur coat, the probable purchase of the fur coat, would be not only that it would keep her warm, but that there would be prestige value, a certain amount of pride; certainly, there would be the element of the approval of other people; there would be emotional motivating forces working on you, with that fur coat.

The same thing might be said of the oriental rug. Now, those kinds of goods that you purchase conform to ordinary spending habits. They are quite easy to buy and they are also very easy to appreciate. You buy the rug and it is delivered and placed on the floor, and there it is. It looks very nice, and it certainly does a lot for the room. There is an immediate use-value to the rug, to the coat, to the car, and also to the dining room furniture. There is something very tangible about them. We enjoy them, and our neighbors come in and they certainly approve of the merchandise, and of our progress in life, as represented by our ability to buy these fairly expensive things.

During the course of that conversation, within your family, after you have been talking for quite some time, you might say, "Well, we could buy those things, but maybe we ought to do something with that money that would give us a little more security. Maybe we shouldn't go out and spend that money right away." Then, your wife will say, "Well, no, we have already decided that we are going to spend the money, because we are saving, every month, from our present income, and this is extra money."

There, you have a conflict between the spending of the money and the possibility of investing the money, which brings up the question that when a person buys investments, and buys securities from you, do they **spend** their money? Or do they just invest it? When you buy securities, would you say you are still **spending** your money, as you are when you buy cars and things like that?

There is a difference in the commitment. What is the use-value of investments? You buy the furniture, and you go in and are able to sit on it. You buy investments, and what can you do with them, from day to day? They are not so easily appreciated. You can't see them. Their use-value is once removed from your daily contact with life. They are not tangible, and therefore they certainly are not as easily appreciated by the great American family.

In order for you and your wife to decide to put this money, the $1,500, into securities rather than to put it into a new car, you have to use a little more imagination, to foresee the benefits you will get from the securities.

The new car is delivered. It is at the door. Even your young child can appreciate that something new has come into the family, you have something to go out and ride in. But it is not quite so easy to appreciate the $1,500 being put into securities; the $1,500 is committed, but what have you got for it? What can you look at and see, or use, and what can your neighbors come in and see?

This is an illustration of the fact that what you sell is once removed from immediate daily use and therefore the benefits are not so readily appreciated by the people that you contact.

This leads up to what we are going to talk about for a while today. How are you going to get your prospects and customers to appreciate what you have to sell as readily and as quickly as they have been taught to appreciate fur coats and other physical things?

If you can reduce your investment offering to a tangible offering that people appreciate readily, then you have got a better chance to compete with all those other product goods that are on the market. It is not easy for a person to sit and listen to another person describe the possible benefits that might be derived from investing their money in securities unless you can show them something, and that is what we are going to talk about, today, showing people something that they can see with their own eyes, that they can pick up and feel, so that the investment program contemplated as a possible purchase by this typical American family, that that program can be appreciated as readily as those other tangible things that are sold with a great amount of advertising and selling pressure behind them.

Making a "Demonstration"

What does the investment salesman do to accomplish that? He makes a **demonstration.** That is the next step in the sales interview.

We have talked about the approach, we have talked about the beginning of the formal presentation, the beginning of the development part of the sale; and, as part of the development step of sales solicitations, there is a demonstration that any smart salesman will make.

Essentially, what you gentlemen are selling has more lasting appeal to that family, or to the head of that family, than these other physical things we have been talking about. How much security, basic security, does an Oriental rug offer to a family? Or an automobile? Very little.

But what you have to sell does offer security. It offers a saving possibility. Even though this family has decided not to put their money in savings—because they are ordinarily doing that—this is an alternate commitment that they can make that will still save their principal for them, but at the same time offer a lot of other possible advantages for the

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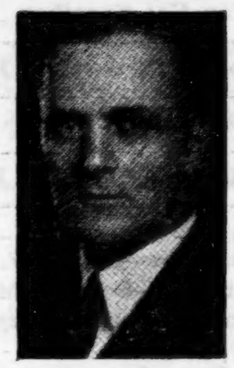
*Stenographic report of lecture given by Mr. Sutton, seventh in a series on Investment Salesmanship, sponsored by the Investment Association of New York, New York City, Oct. 27, 1949.

Devaluations, Our Tax Structure, And Risk Capital Markets

By R. W. COURTS*
Partner, Courts & Co.
Investment Bankers, Atlanta, Ga.

Southern investment banker, warning British currency devaluation may flood our markets with goods we are unprepared to accept and consume, advocates increasing our demands for foreign goods by undertaking vast public improvements and importing materials needed for this purpose. Says we should set our own house in order, provide a national tax structure that will encourage and promote investment in risk capital and relieve people of fear for free enterprise.

I wish to discuss some phases of monetary devaluation, how they affect our internal economy, particularly our risk capital markets and our tax structure. I will not attempt to go into any detailed discussion of money. I do feel there are some things about money we should all remember. Money fluctuates in value in accordance with supply and demand just as any other commodity. Through the ages gold proved the best money, for it could fluctuate little in supply. A paper money or currency can be increased at the will of a government. If an over-supply is created, its purchasing value declines, resulting in higher prices for food and other commodities.



Richard W. Courts

Prior to the First World War the major countries operated on the so-called gold standard, maintaining gold as a reserve for their currencies. This is no longer true. The fact remains that the value of one currency is maintained in terms of other currencies by the ability of the issuing country to deliver goods or gold in settlement of its foreign obligations. Today the United States is in possession of some 66% of the world monetary gold supply and can produce goods in excess of current needs.

In the early history of our country the development of our resources was aided by loans from Europe. We became the largest external borrower in history, taking over $3 billion from Britain alone. For more than 200 years we were a debtor country. During the period we produced an exportable surplus of goods and shipped them overseas in payment of our debts. We acted like debtors. Most important, our creditors acted like creditors and accepted our goods. At the close of the First World War the situation was reversed. We found ourselves a great creditor and in possession of some 40% of the then known monetary gold supply. It was then time for us to reverse our trade balance, buy more from debtors than we sold them. It was our turn to take back commodities, particularly natural resources, that we had been giving them for more than 200 years; in return, give back to them their I.O.U.'s and some of their gold as a base for their currencies. It was time to let Europe work for us. We did the opposite. In 1922 we passed the Fordney-McCumber Tariff Bill, increasing our already high tariffs. We put the world on notice that we did not want their goods in payment of debts. This action was taken in spite of the fact that there had been continual conferences in European capitals on the subject of debts and means of payment. In succeeding years European countries tried to pay us by delivering gold and in the process bankrupted their currencies and therefore their distributing systems. Dictated economies were put into effect giving some relief. Dictated economies were followed by complete dictatorships and totalitarian states. During the period we continued to sell more than we bought, covering up the unsound picture by making unsound loans.

Our loans finally stopped, then came the 1929 crash. In the throes of depression and in an effort to protect against the havoc brought by an already unsound economy we made another unsound move. The Hawley-Smoot Tariff became law, again jacking our tariffs to an all-time high. A few months later, in September, 1931, England was forced off the gold standard — others followed. The British pound promptly dropped from $4.86 to $3.25 in terms of the U. S. dollar. To show what this did to our industrial plant, let me quote from the New York "Times" of Feb. 18, 1932: "Owing to the decline in sterling, British tin plate can be landed on the Atlantic seaboard at $3.50 a hundred pounds, whereas the official American price is $4.75 f.o.b. Pittsburgh." Foreign goods came into our markets in spite of our tariffs.

In defense we then proceeded to devalue the U. S. dollar. Foreign currencies rose in relation to U. S. dollars, but it was temporary. The same trend resumed, currencies and production costs of debtor countries declining in terms of our currency. Then we set up a great reservoir of money in Washington to spend in order to make business go. We started priming the pump, a pump that would not prime, and we have been priming ever since.

The Second World War aggravated the lack of balance. In 1945 we set up the Bretton Woods machinery, of little economic value unless the creditor acts like a creditor and debtors act like debtors. Then came the Marshall Plan—we continue to give away dollars and the resources of our land so far with no plan for getting much back, except the hope of allies in future war. Strength, preparedness and fair trade policies will command allies — gifts bring rebuke when they run out.

Can We Absorb British Goods?

Today we find Britain and others devaluing for one prime purpose—to get dollars by shipping goods into our markets. If their action is followed by no plan on our part to accept and consume their goods, how can we escape further devaluation of the U. S. dollar in the future? True, Britain made unwise use of advances by us and unwisely set up a welfare state at the very time she needed maximum effort and maximum production. Her workers will now pay a bitter price with longer work hours and shorter rations. The British pound will buy less food and less clothes.

It seems to me we have tried every plan but one, the plan dic-

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*An address by Mr. Courts before the Atlanta Rotary Club, Atlanta, Ga., Oct. 10, 1949.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Labor unrest in the coal and steel industry continued the past week to have a depressive influence on the economy of the country which resulted in industrial production dropping fractionally to a level moderately under that of a year ago.

The effects of these strikes in two of the most important basic industries were beginning to make themselves felt to a greater degree the past week than heretofore with shortages in steel and soft coal developing in lines previously unaffected by the walkouts.

In keeping with unsettled conditions growing out of our present labor unrest, retail trade the past week reflected a noticeable decline in aggregate nation-wide sales below the level of the corresponding period a year ago. Merchants reported that aggressive promotional campaigns in many fall and winter articles generally failed to overcome the caution of many consumers.

A slight increase occurred last week in the dollar volume of wholesale trade as many merchants sought goods for the coming holiday season. It remained, however, moderately under the similar period of 1948.

The dollar volume of wholesale apparel orders last week held close to the high point of the week previous with aggregate unit volume about equal to that of a year ago.

Buyer demand for food also continued high the past week with total unit volume approximately even with that of a year ago.

Buyer interest in cotton textiles continued to rise last week. A sizable volume of cotton gray goods was sold for second quarter delivery. Some work clothing fabrics were available for 1949 delivery with a moderate rise in the ordering noted in print cloth, carded broadcloth and sheetings. Interest in drills and twills increased noticeably, but there was a paucity of offerings.

* * *

An important break in the month-long steel strike came on Monday evening of this week with the signing of an agreement by the Bethlehem Steel Corp and the CIO United Steelworkers on a pension and social insurance program. This entire program is subject to approval by stockholders of Bethlehem Steel, according to Eugene G. Grace, Chairman.

The agreement provides for minimum pension levels for retired workers, now set at $50 a month, to be doubled and also calls for an insurance program, to be shared equally by the company and the employees. The settlement represents a compromise since the pension program is non-contributory and the insurance benefits are partially financed by the worker.

This solution is expected to set the pattern for speedy agreements throughout some parts of the industry. Three other basic steel producers, Jones & Laughlin, Republic Steel and Youngstown Sheet & Tube, were reported on the verge of settlements with the Steelworkers.

Benjamin F. Fairless, President of United States Steel Corporation, on Monday evening following Bethlehem Steel's announcement made the following statement:

"We renew our earlier proposal to sit down with the Steelworkers' Union in an endeavor to negotiate a mutually satisfactory program of insurance and pensions for our employees. Of course, we will study the Bethlehem settlement which was announced tonight."

Discussing the adverse effects of the steel strike upon metalworking industries, "Steel," national metalworking magazine, in its current issue states that these effects will be felt for many weeks after the walkout ends. Whether the work stoppage ends soon or extends into November, so much steel production will have been lost, that supply difficulties will be felt into early 1950, at least in the popular products. This condition will hamper fabricating operations until the mills again approach balance between supply and demand. This, in the opinion of most observers, will take several months, the magazine points out.

* * *

The increase in unemployment in October over that of September showed a rise of 225,000, according to Secretary Sawyer of the U. S. Department of Commerce. The rise, states the Secretary, brought "at least a temporary halt" to the downtrend in unemployment which which started last August. He attributed the upturn to the steel and coal strikes, rather than any "basic changes in the country's economy." He also noted that the department's figures for October, which were based on samples taken in the first week of the month, did not reflect the full impact of the strikes.

Of interest was the announcement made on Monday last by the Federal Reserve Board that consumer credit rose $346,000,000 in September to a record high of $16,804,000,000 as the result of a further expansion in instalment buying.

The total as of Sept. 3 compares with $16,548,000,000 for the end of August. The year-to-year gain from Sept. 30, 1948, the Board notes, was $1,573,000,000.

STEEL OUTPUT SCHEDULED AT 8.8% AS STRIKE CONTINUES

Once steelworkers get back on the job, steel will start coming out of the mills faster and in greater volume than most people think, states "The Iron Age," national metalworking weekly, in its latest summary of the steel trade. The Bethlehem settlement and U. S. Steel's repeated offer to negotiate make that a probability now, though small companies may not be able to afford the 11½c hourly cost of the Bethlehem pact.

Here is "The Iron Age's" timetable, assuming quick settlement with major steel companies: within a week after settlement steelmaking operations will be close to 25% of rated capacity. The week after that the rate will be boosted close to 60% mark. Less than a month after the tieup ends the pre-strike level of the mid-80s will be reached.

(Continued on page 35)

"Stop Political Waste And Business Baiting"—Merryle Rukeyser

Asserts we are undermined by reactionary Marxian and Keynesian fallacies which are falsely regarded as liberal.

COLUMBUS, O., Nov. 2—The national economy is being needlessly tried by profligate political waste and by business baiting on the part of pressure groups and their fellow travelers.

Merryle S. Rukeyser

This view was expressed here today by Merryle Stanley Rukeyser, of New York, economic columnist for International News Service, at a luncheon address in connection with the annual meeting of the Ohio Chamber of Commerce at the Deshler-Wallick Hotel here.

Having just completed a first hand 10,000 mile survey of America's economic pulse in a coast-to-coast tour, Mr. Rukeyser declared: "The time is ripe for the emergence in both parties of a new leadership based on common sense and common honesty. The new goal should be at long last to cater to individual excellence and efficiency — not to wastrels and suckers.

"The new long-term promise of American life can be bright indeed if we call a halt on the vogue for hokum and dilettanteism in the management of the material well being of 35,000,000 American families. Though we reward generously managerial know-how in private affairs, we have been standing by while amateur political economic planners and ambitious pressure group officeholders have been seeking to substitute their untrained judgment for that of the responsible trustees of the private savings of the American people.

"The touchstone for recognizing economically sound leadership inheres in appreciation of the importance of the cost sheet. On the other hand, subtle racketeers Marxian ideologists, and pressure group officials attempt to strike at the foundations of national economic greatness by holding out the sucker bait of giving something for nothing. The deceptive trick consists of concealing costs, not in eliminating them.

"By way of illustration, the so-called Brannan Plan is conceived in the same fatuous, give-away spirit as the blueprint of the British Socialists for providing city dwellers with low-priced food and farmers with a reasonably satisfactory income. The acrobatics is accomplished by making the citizens pay twice for the food. First, he makes a part payment at the grocery store, and later he completes the payment in tax remittances out of which the government provides a farm subsidy.

"The provider of genuine social gains reduces true costs through technological improvements and the use of the fertile brain of creative minds in science, invention and engineering. On the other hand, the demagogue pulls wool over the eyes of the people in hiding costs, and thus creates the illusion that he is providing free lunch. The day of reckoning, which has come in Great Britain is a warning of the destructive character of political programs bent on destroying human rewards and incentives. Though the Labor Party gained office by virtue of

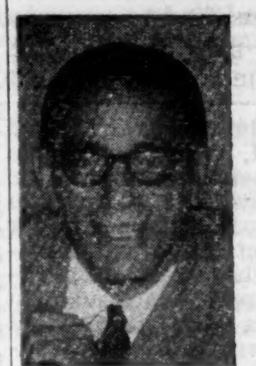
(Continued on page 35)

Observations . . .

By A. WILFRED MAY

Planning Mess—Socialist Style*

Nothing is more significant about the British Government's eagerly-awaited new economic measures—as announced and explained last week by Mr. Attlee and Sir Stafford Cripps—than the confusion over **Planning** they reveal in the minds of the public as well as the government leaders. On the one hand, the expected strides toward dis-inflation have turned out to be no more than gestures. In captioning its leading editorial this week (the "Economist" of London characterizes this "latest attempt to create the appearance of an economic policy" as "Salvation by Fleabite"). On the other hand, displeasing everyone, the government does take a small backward step away from its doctrinaire Welfare-ism by imposing a shilling charge on prescriptions. But even more important than the confusion, self-contradictions, and indecision—is the hopeless mess in which the Planners now find themselves after four years of power and administration of their 1945 "mandate."



A. Wilfred May

The current chaos is perhaps best typified in the situation which has resulted in **housing.** ("It is perhaps on the proposed housing program that the greatest doubts arise about intentions and performance in 1950," says the "Economist" in a companion article: "Cuts Without Policy.")

The new policy follows one phase of the Labor Government's doctrinaire intentions in further curtailing the **private** sector of building activity, while leaving the public authorities' activities unscathed. Contradictorily, however, the government's Full Employment doctrine will be undermined by the reduction from the currently high-employment levels through the reduction of investment of £35 million. And furthermore the government is necessarily reducing its housing goal—amounting to a further diminution in building from 200,000 to 175,000 units next year (similar to the persistent lag in housing in the Soviet Union). This year private building is already down to two-thirds of prewar.

From the broader view of political democracy too, the British housing situation exemplifies the interference and overlapping that are certain to result from concurrent private and governmental activity—whose delimitation and separation are believed possible here as well as abroad.

Process Was Gradual

The course of British housing and her Town-and-Country Planning shows how governments by ***gradual*** *stages get into whole-hog planning and complex controls, and subsequently find it impossible to withdraw even one toe from the door.* "Gradual" is indeed the correct characterization because governmental entry into the rent-control and even the housing fields is not new. Rent control was instituted during the First World War, the first freezing occurring between 1914 and 1918. Following the grave shortage of housing accommodations following the 1914-1918 war, successive governments from 1919 onward encouraged the building of houses for letting to members of the working class at rents subsidized

*The supporting material for this article was recently secured in England by Mr. May.

(Continued on page 43)

Railroad Transportation and National Defense

By A. L. M. WIGGINS*

Chairman of the Board, Atlantic Coast Line and Louisville and Nashville Railroad Companies

Citing predominant dependence in World War II on railroad transportation, Mr. Wiggins urges railroads be kept strong and efficient. Holds railroad management has been alert and courageous by making large capital outlays, but warns future along these lines is uncertain. Urges unification and coordination of government regulations and controls, and greater equality of treatment for railroads. Stresses need of labor cooperation with management.

There is no group in America better qualified to appraise the value of railroad transportation to the defense of this nation than the members of the National Defense Transportation Association. From the President of the United States and top officers in every branch of the service on down through the lines, all have testified as to the essentiality of rail transportation in national defense.

A. L. M. Wiggins

It is a matter of record that during the two decades preceding World War II, more money was spent by government from tax other forms of transportation than all the money spent on railroads in more than a hundred years. However, when the test of war came the nation turned to the railroads for the transportation of 97% of all organized troop movements, for 90% of all Army and Navy freight movement and for more than two-thirds of the movement of all freight of all kinds. Your own General Edmond H. Leavey declared "the railroads were the first and the primary link in the chain of movement which carried our military strength against the enemy in all corners of the earth." In 1945, President Truman wrote about the railroads: "We as a nation must continue to depend upon them for transportation that is all essential to military success and vital to that full life which we as American citizens have a right to desire and to achieve."

The members of the National Defense Transportation Association are fully aware of the brilliant performance of the railroads during World War II and many of them performed distinguished service in the outstanding job that was done. They know not only the successes of accomplishment but know too well from bitter experience the handicaps and the difficulties under which the railroads operated at the beginning and during the war. There was an alarming shortage of equipment of all kinds, particularly of freight cars and of motive power, and an accumulation of deferred maintenance of roadway which was a serious handicap to efficient operation.

At the beginning of World War II, more than one-third of the country's railroad mileage was in bankruptcy or receivership. During the period from 1931 through 1938, capital expenditures of all Class I railways had averaged the totally inadequate figure of $259 million per year, as compared with an average of $842 million per year for the preceding seven years. This low pre-war capital outlay proclaims the inadequacy of earnings during this period and the resulting inability of railroads to secure the funds necessary for needed improvements.

Must Anticipate Future Rail Needs

Knowing both the essentiality of railroad transportation to national defense and the handicaps under which the railroads entered World War II, those responsible for national defense have the stern duty to evaluate, to appraise and to anticipate the needs for efficient and effective rail transportation in the event of a future war. In particular, such an obligation rests upon the National Defense Transportation Association, which has as its number one objective "to assist in effecting transportation preparedness for war as being one of the nation's strongest guarantees of peace." This Association not only recognizes that obligation, but has adopted as a further objective: "to bring to the attention of the people of our country the necessity for transportation preparedness, and through meetings, conferences and publications to stress the importance of transportation as a major factor in bringing an emergency to successful conclusion."

There is no organized group in the nation that can speak more authoritatively nor with greater public confidence in what they say on the problems of the railroad industry in providing the most efficient and most effective transportation system that is required for adequate national defense, than the membership of this Association.

The people of this nation are more acutely aware today than ever before in peacetime of the stark necessity and urgency of adequate national defense. The largest items in the budget of the Federal Government and the heaviest burden on the taxpayers are for the support of the Armed Services and for facilities required by these services in providing adequate defense for this nation. Who would have thought following World War I that in 1949 we would be spending 15 to 20 times as much money per year in peacetime for national defense as we were then spending? But we have no choice. We are living in a world of cold realities and must pay the price of self-preservation.

Rails Have Improved Efficiency

We may well ask what the railroad industry has done since the end of World War II to improve efficiency, to promote economy of operation and to provide more adequate and more modern facilities not only to meet peacetime needs but as a guarantee of adequacy in the event of war.

Using the figures of the first six months of 1949 compared to a like period in 1944, average freight train speed is 8% faster, average number of cars per train 7% greater and the gross ton miles for each train hour of freight service have been increased to 42,069 in 1949 as against 36,944 in 1944. As compared with 1940, the net load per freight train has increased 38½% in 1948. Railroads today are moving a ton of freight a mile with two ounces of coal or a tablespoonful of oil if burned in a steam engine, or a teaspoonful of oil if burned in a diesel.

No development in railroad history has been more dramatic than the development and use of diesel motive power on the railroads. Although diesel locomotives were developed for all types of train service only 10 years ago, with the earliest use as switchers about 25-years ago, and generally available in quantity from more than one builder only after World War II, there were 6,889 diesel locomotives on American railroads on Sept. 1, 1949, with 869 on order from the manufacturers.

All of this means progress. It means that there has been an intensive program of research and development by individual railroads and by the Association of American Railroads, as well as by the suppliers of railroad equipment. It means, furthermore, that efficiency, economy and adequacy of railroad transportation are primary considerations of railroad management, second only to safety. In spite of costs, research continues in an accelerated program. The development and use of centralized traffic control and of electronic communication from moving trains are comparatively new devices for increased efficiency, as well as safety, that promise much in the future. There is no segment of the field of railroad transportation looking to improvement and modernization that is not receiving intense study and careful analysis. Wherever good results are obtained, there is prompt application to the extent that capital is available. So long as the American railroads continue to be privately owned and so long as they are able to earn an adequate net income, there will continue to be research, modernization and greater efficiency, economy and service.

Railroad management has been and is alert and courageous and has given evidence of its confidence in the future of rail transportation by large capital outlaws for additions and betterments. Since the end of World War II, the ownership of railroad freight cars has been improved through the addition of 284,237 new cars to date and the rebuilding of a larger number. During the same period, 4,080 diesel engines were placed in service. Heavier rails and improved roadway have been provided on much of the trackage. Modern signaling and communications devices are being installed. Comfortable streamlined passenger cars are replacing old equipment.

The limitations on these improvements are largely the limitations of capital and of earnings. During the four years of 1945 through 1948, the railroads have invested in additions and betterments $3,263 million, which was more than 3¼ times the amounts paid to stockholders in dividends. Additions and betterments in 1948 exceeded $1¼ billion and about the same outlay is being made in the year 1949. This is a thrilling record of progress and of faith on the part of railroad management in the future of railroads.

Future of Capital Outlays

But what of the future? That promises to be an entirely different story in capital outlay. A serious decline in additions and betterments is indicated. Even now, new freight cars are being

(Continued on page 36)

*An address by Mr. Wiggins before the National Defense Transportation Association, Atlanta, Ga., Oct. 3, 1949.

Britain and U.S. Business Outlook

By PAUL EINZIG

LONDON, ENG.—There is one aspect of the devaluation of sterling and of a number of other currencies which is beginning to give rise to concern among British businessmen and economists. It is the effect on business conditions and outlook in the United States. In this imperfect world of ours one man's meat is far too often another man's poison. It has become inevitable to cut British prices by reducing the dollar value of sterling. It seems equally inevitable that this move should result in substantial and widespread cuts in American prices. Judging by advices received from the United States, already there are indications of such a downward trend. Even though to date it has not assumed substantial proportions, it seems probable that the next few months will witness a fairly pronounced decline of the American price level.

Dr. Paul Einzig

The prospects of such a decline are viewed with uneasiness on this side of the Atlantic. Its immediate and automatic effect would be a corresponding reduction of dollar earnings derived from British and sterling area exports to the United States. It is true, there is also a likelihood of the fall in prices of goods imported by Britain and the sterling area from the United States. But the chances are that these prices will not decline to the same extent as those of goods imported by the United States from Britain and the sterling area. For both the exporters and the importers of these latter goods will be inclined to take advantage of the increased profit margin arising through the devaluation of sterling. Exporters are tempted by the prospects of expanding their sales to the United States through giving away part of the margin. American importers will insist on their share in the benefit derived from the devaluation.

On the other hand, the effect of the devaluation on the prices of goods exported by the United States is expected to be less direct and more slow. There are bound to be cuts, in order that exporters should be able to hold their own in various markets in face of the increased competitive capacity of countries which have devalued their currencies. But in the majority of articles the main limiting factor even now is the lack of dollars, not the high prices. In so far as the devaluation will achieve its object of bringing about an increase of exports to the United States, the decline of the dollar prices of goods imported by the United States might outweigh in importance the decline in the prices of American exports.

Another important consideration is that a substantial fall in American prices would materially reduce the "safety margin" created by the very drastic devaluation of the sterling. In any case, that margin is likely to become reduced through a rise in costs and prices in Britain and in the sterling area countries. If in addition there should be a substantial fall in American prices then the "safety margin" represented by the undervaluation of sterling will disappear. The position may then be the same as it was before the fall in American prices that took place earlier this year.

What is much more important than either of the above considerations is the possibility of a contraction of American demand for British and sterling area goods as a result of the effect of the fall of prices on general business conditions in the United States. The experience of the first half of 1949, when the fall in American prices resulted in a contraction of American imports might easily repeat itself. The menace of a deflationary vicious spiral in the United States developing into a slump is very much in the minds of British businessmen and economists. It is true, those who entertained the same fears four or five months ago have proved to be wrong, for American economy displayed a remarkable resistance to the evil effects of falling prices; as a result the fall came to a halt. But it is not considered safe to assume that the same experience will repeat itself this time.

A few months ago, when it appeared that the American recession might gather momentum, a large section of British opinion built its hopes on the possibility of intervention by the United States Government. Although there was practically no such intervention, there is once more much speculation in London about the chances of "new deal" measures to arrest the depressing effect of the fall in prices caused by the devaluations. The main argument of those who anticipate intervention is that the Washington Administratiin could ill afford to allow a depression or even a recession, to develop in 1950 because it is an election year. What these prophets are inclined to overlook is that Congress is not "new deal" minded. Those who follow American politics are inclined to doubt whether the Administration would be able to obtain a majority for "new deal" measures.

An alternative defense against depression, the possibility of which is envisaged by many people on this side of the Atlantic, would be an increase of the American buying price of gold. Notwithstanding the repeated and emphatic statements made by Mr. Snyder, ruling out that solution, it is considered possible that the force of events might induce the Administration to reconsider its attitude. Categoric, as Mr. Snyder's denials are, they are no more so than were those of Sir Stafford Cripps right to the very moment of the devaluation of sterling.

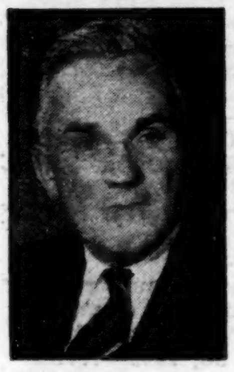
The number of those in Britain who are inclined to believe that sooner or later the U. S. Government will avail itself of the weapon of the gold price in order to counteract the deflationary effect of sterling devaluation is on the increase. Opinions are divided whether, if and when the change should take place, it would be accompanied by an upward adjustment of the sterling-dollar parity. Sir Stafford Cripps envisaged the possibility of raising the rate from 2.80 if possible. It is conceivable, on the other hand, that there may be an all-round and identical increase of the price of gold in terms of the currencies of all countries represented on the International Monetary Fund, the statutes of which institution envisage such a change of gold parities.

Most people interested in this possibility realize, of course, that it is more than a possibility, and that deflation in the United States would have to go much further before it became even a probability, let alone certainty.

From Washington Ahead of the News

By CARLISLE BARGERON

COLUMBUS, OHIO—I struck up a conversation with a fellow at the bar and we became warm friends because he was from Waverly, Ohio, and came up with a dear friend, one of the outstanding members of the Washington newspaper corps. This fellow, I came to learn, was a barber and I asked him about Senator Taft. Whereupon he went into a terrible harangue about how Bob Taft has never in his life done anything for the workingman. When I sought to interrupt with the thought that the workingman, so-called, was in a helluva fix when he looked to politicians to "do something" for him and to point out that it was Taft who checked Truman when he went hog wild in the case of a railroad strike more than a year ago and sought to conscript labor, he was completely deaf.



Carlisle Bargeron

It is a tragedy that our so-called workingmen have no better thought processes than this. They read their labor journals and accept 100% the demagoguery of their labor leaders. The fact that an automobile worker or a railroad worker has to go on strike periodically himself and then is thrown out of work at other times when he has no stated grievance, because of the power of two or three labor leaders, utterly ruthless, has not caused this fellow to whom I was talking, to realize what an awful vise he is in. A bar is no place to try to convince him and I didn't try to do so. Our conversation simply palled, notwithstanding our mutual friendship for his fellow townsman in Washington, a "fellow who has certainly made good," as this barber said rather enviously, but it has never occurred to him to ask the question why he hasn't made good himself.

Notwithstanding this fellow's type of mind, I am assured wherever I go out here that Bob Taft's campaign for reelection next year is going great guns. In the first place, the heterogeneous, motley crowd against him—the Commies, Organized Labor, American Democrats for Action (or something like that—the young Roosevelts, Leon Henderson et. al.) and the Democratic Party haven't been able to get together on an opponent. At this time Taft is running against nobody but he is making such a campaign, a year in advance, I am told, that if he were running against a formidable candidate he would be hard to beat.

The fight is not over by a long shot. Only this week some little political nincompoop harangued the CIO convention in Cleveland with what "labor intends to do to Bob Taft and his ilk." Bill Green, President of the AFL, who a few years ago was generally spoken of in the press as through, as having never been any particular worth to the labor movement, but who now at 75 or so, has had his salary doubled apparently because the Taft-Hartley Act has given him a subject of harangue, an evidence of vigor and up and at 'em stuff, tells in every speech he makes what he intends to do to Taft. If Bob Taft never accomplished anything else he has given this old man monkey glands.

But I am assured by the state's political observers that at this time, Bob stands to win.

What then? You would think he would be the inevitable nominee for President by the Republicans in 1952. He is today the Republican Party. He symbolizes it more than any other one man. If he should lose next year, of what avail will it be for other Republicans to win? They will be or will soon become the so-called Republican Liberals of which there is nothing worse. They will have seen the handwriting on the wall and the old argument that Bob Taft was too conservative will prevail in Republican councils.

But assuming he wins. Instead of his being given the Republican Presidential nomination in 1952, you can see what is brewing right now.

The Eastern element will throw up its hands and say: "Oh Bob Taft is a great man but he is not an internationalist. He doesn't have a broad grasp of international affairs."

It so happens, of course, that he knows all about Europe, as much if not more than Dean Acheson and the great Vandenberg. But he is a realist. He will not go overboard. Therefore, he is an isolationist.

So—we must head him off in regards to the Presidency. We must have Eisenhower. You can already see that build-up. And you can also see his approach. Nuts between Republicans and Democrats. Let's solve all our problems sanely and without rancor or partisanship. Let's have a united party, a people all batting together against the foreign foe under one dynamic leader. Eisenhower, the one man who can make our country strong.

You can see this fight coming at the Republican convention in 1952 and you should be able, too, to see the "me too" campaign that would follow in the event of Eisenhower's nomination. And, I think, you can also see the Republicans go down to defeat again!

White, Weld Co. Opens Branch In New Haven

NEW HAVEN, CONN. — White, Weld & Co. have opened a branch office in the First Federal Savings and Loan Association Building under the management of Lauren Arnold. Mr. Arnold was formerly manager of the New Haven office of Fahnestock & Co. for many years.

Also associated with the new White, Weld office will be Roger P. Tyler, Rufus Darrow, Seymour Gans, Herbert W. Hayford, Richard Warren, Seymour Page, and Kingsley M. Whitcomb.

Chgo. Analysts to Hear J. S. Lawrence of N. Y.

CHICAGO, ILL. — Joseph Stagg Lawrence, Vice-President of the Empire Trust Company of New York City, will address the Investment Analysts Club of Chicago at a luncheon meeting to be held Nov. 3. Mr. Lawrence will speak on "The Role of Money as as Investment Factor."

With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Frank D. Reiley is with Slayton & Co., Inc., Union Trust Building.

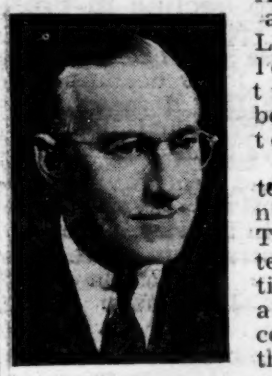
What's Coming in Television?

By H. C. BONFIG*

Vice-President, Zenith Radio Corporation

After reviewing developments in television and discussing operating problems, prominent television manufacturer describes progress in color reproduction and use of phonevision, whereby television is brought to home over telephone wire. Says this will give television quality films produced by Hollywood as well as "a box office," and, at same time, permit direct reproduction of filming of motion pictures.

Let's examine this paradox called television, this fascinating and intriguing development, this economic monstrosity, this upsetter of daily lives, this disturber of other businesses, this utterly delightful art that has raised a dozen question marks on the horizon of American life and business. Let's take a look at its turbulent, boiling history.



H. C. Bonfig

First of all, television is not new. There were television stations on the air in this country more than 20 years ago, and by 1932 there were four stations and many sets in operation in the city of Chicago alone. But this little boomlet of two decades ago collapsed with a gentle thud and we heard no more about it for several years. The whirling mechanical discs that were used to distribute light and make a television picture proved utterly inadequate for the job. Television went back to the laboratory.

Then came development of an all electronic system and the launching of television at the New York World's Fair in 1939. This boomlet, too, collapsed, but it did result in the establishment of six commercial television stations which operated in four different American cities through most of the war years. These stations played to an audience represented by somewhere between 5,000 and 7,000 television receivers—the sum total of television set production between 1939 and the stopping of civilian radio production in 1942.

Postwar Development

Since the war, television has had a different story. It is almost as if the art had burst upon the world, new born, on the day Japan surrendered. It has dazzled us, engulfed us, and come forward with incredible speed. Here are some amazing statistics:

It took about a year to get things started, but by the end of 1946 there were eight stations on the air in six cities, and there were more than 10,000 sets in the hands of the public. That was just the beginning.

When Father Time rang the curfew on 1947 there were 18 stations in operation, and the public had purchased 142,000 receivers.

Then the snow ball began to roll in earnest. On New Year's Day, 1949, there were 51 television stations on the air in 27 different cities, with a million sets in use.

Since the first of this year the number of stations has almost doubled, for as of today we have 88 stations on the air in 57 cities, and the public has purchased nearly 2,700,000 television receivers. In addition, construction permits are outstanding for 23 television stations, some of which can be expected to go into service before the end of 1949, and the FCC has on hand 351 frozen applications.

I don't know of any other art that has gone so far in so short a period as television has since the war. Nor do I know of any that has thrived and progressed through such a startling state of confusion. The trouble has been that commercial development has followed so close upon the heels of scientific exploration that we have had to find, almost overnight, answers to problems of development that would not have been solved in other fields for many years. Let's consider, for example, the question of allocations:

Allocations

The present Federal Communications Commission inherited a maze of problems that would baffle the intelligence of the Magi, and in addition has acquired a new set of problems to tackle.

Radio and television are today operating under an allocation plan adopted in 1945. At that time there were 13 channels assigned to television, one of which has since been transferred to other radio services. The Commission assigned stations in different cities on the 12 remaining channels. The intent was to distribute these assignments in such a way that all stations operating on the same channel would be separated far enough from each other so that none would interfere with others.

Unfortunately, things did not turn out according to theory. As additional stations came on the air, there was growing interference between stations on the same channel. One Detroit station, for example, found that a Cleveland station on the same wave length was interfering with its picture right up to within two miles of the Detroit transmitter.

It soon became evident that this allocation plan was unworkable, because when all stations provided for were on the air, interference through large sections of the country would become intolerable. The Commission, therefore, ordered the famous "freeze" in order to re-examine the picture and re-allocate stations so that we could have a good workable television system.

Another fundamental consideration was the fact that the 12 assigned channels were utterly inadequate. This fact was recognized by FCC when preparing its 1945 allocations. Early in that year—nearly five years ago—the Commission stated that there was not room in what we now call the VHF or very high frequencies for a truly competitive and nationwide system, and said that if such a system were to be established it must find its home higher in the

(Continued on page 29)

*An address by Mr. Bonfig before the Co-op Club, Kansas City, Mo., Nov. 1, 1949.

The Changing Economic Outlook

By A. W. ZELOMEK*

President and Economist, International Statistical Bureau, Inc.

Pointing out present economy is no longer the economy of the 1920s, Mr. Zelomek says government has fairly well demonstrated, through aid to farmer and support of labor unions, it can prevent price collapse of previous period. Holds there is no reason to fear early major depression, and our most serious difficulties lie in international sphere. Sees long-term prospect still uncertain.

The last 12 months have been filled with more exciting and contradictory developments than I can recall in a long time. About a year ago we were at the peak of postwar activity. Then from last October to last July there was an exceedingly sharp decline in production and prices in many, but not all, industries. There was a marked degree of inventory liquidation.

A. W. Zelomek

After July, however, a series of confusing developments got under way.

For one thing, there was quite a pick-up in production. This was not too surprising. Inventories had been pulled down sharply: retailers had to buy during the summer in order to obtain deliveries for fall selling, and many industrial consumers bought metals a little more freely because they were afraid of a steel strike.

In September came devaluation. This slowed up activity in many markets temporarily, while buyers waited to see what would happen. But within two or three weeks it became plain:

(1) that devaluation was not going to lead to any immediate drastic decline in the price level, and

(2) that Western Europe's economic problems had not been solved by the move, and that another crisis by next Spring might very well develop.

Then the coal and steel strikes actually broke out and the lagging trend of retail sales was exaggerated. Retailers who had been so careful all year with their stocks and commitments were again faced with the probability of unexpected markdowns on some types of Fall merchandise.

But this condition did not seem to depress sentiment in many of our important markets. As I prepared these remarks a few days ago, I was beset by telephone calls, nearly all of which expressed inflationary fears. There were rumors that the dollar would be devalued. The Federal deficit would be big this year, and wouldn't that cause further price inflation? The strike had depressed some lines of business this year, but didn't that merely mean that those lines of business would be that much better off next year?

Many of these questions were stimulated by optimistic statements in trade papers, business services or by government agencies. And to give them more vitality, Congress reached a last-minute compromise on farm legislation, giving the farmer more than he has ever had before in the way of support. Commodity futures markets took their signal from this development and, aided by seasonal factors, began a strong upward movement.

And finally, on the strength of this evidence, a great many people concluded that the Administration would do everything it could to have a strong recovery under way before November, 1950, which is certainly true; and that its efforts would be successful, which, on the other hand, is not necessarily true.

Two Kinds of Buying

In the face of these surprising and conflicting trends our job today, as I see it, is to try to explain some of the inconsistencies and unravel some of the confusion—to decide, in short, what is important and what is superficial.

I do not mean to say that changes in sentiment and psychology are entirely superficial. They cause marked fluctutions in new orders, which in turn have a substantial short-term influence on prices. But these fluctuations are so great that the wide swings above and below the more stable general trend of business are very deceptive.

I think, therefore, that we must make a sharp distinction between what we might call intermediate buying and ultimate consumption. By intermediate buying, I refer to the new orders placed by the million-and-one processors and distributors, while by ultimate consumption, I mean the disappearance of goods from the market to the final consumer.

From what I have said so far, you will already understand why there was such a big pick-up in intermediate buying from the exceedingly low levels reached earlier this year.

There was the need in many cases to build up stocks, either against seasonal requirements or because they had been depleted a little too much.

Among purchasing agents, there may have been a little increase in buying during the Summer because many prices had declined so sharply in the late Spring.

There was the fear of major strikes.

There were the rumors about dollar devaluation; the growing size of the Federal budget; the inflationary action of Congress in connection with farm price support.

But what about the ultimate consumer? Is the average housewife buying any more than she did before? Is the businessman increasing his expenditures for new plant and equipment? The answers to these questions are categorically **no.** Retail sales have been lagging during most of the year, and have been depressed further by the strikes.

Looking forward, it is also hard to find sound reasons for believing that the trend of unit volume at retail will suddenly begin a sharp and sustained rise.

For some items, chiefly soft lines, very sharp price reductions have caused some increase in unit consumption this year. But prices in primary markets have now begun to advance again, and the maximum advantage of reduced prices has been seen for the time being.

Moreover, the retail price level as a whole has not come down as sharply as it has for some individual groups. In addition, the cost of living has remained high, rent increases largely offsetting declines in other sections.

If I were to summarize the present situation, **as of today,** I would say that the improvement in business trends since last July has been localized chiefly among intermediate processors. They have increased their buying, for good and sufficient reasons, but the consumer hasn't.

Ultimate consumption did not share in this Summer improvement, so far as I can see. Income has declined only moderately, but the decline in farm income and wage payments has been somewhat greater. Price declines, as a whole, have lagged somewhat, although for individual lines of goods they have been quite sharp.

If we discount protective buying because of strike fears, the improvement in activity has been further concentrated in those industries where production and price declines had made most progress.

In a very important section—the capital goods industries—a declining trend is beginning to get under way. Expenditures for new plant and equipment in the fourth quarter of this year, for example, are estimated at 22% below the record high level for the last year—and 30% below for manufacturing.

Meanwhile, a substantial volume of industrial capacity is available and ready for use. Operating at full rates last year, it produced excess inventories. Many of these excesses were sharply reduced by July of this year. Nevertheless, there has not yet been enough in the way of price reduction to make me believe that production can continue on up to previous highs without again building up surplus supplies.

Let me point out, before going on to other subjects that my doubt about any sustained increase in ultimate consumption is a doubt strictly **of the moment.** If price drops had been sharper to date, or were to become sharper within the next few months, I would revise this opinion.

I must also make allowance for the same thing that has impressed many businessmen, that the Administration will try to have a recovery going before November 1950. We will simply have to watch Congress and the Administration during the first three or four months of next year to see whether any actions taken then require a basic change in our opinion.

From what I have said so far you will begin to understand my own views about the business outlook. However, let me take up some of the specific questions, as outlined by your chairman.

Has the Business Upturn Been More Than Seasonal?

Recovery in output from July into August and through September was more than seasonal in many industries. This, however, is a little beside the point, since the reason for it is self-evident—the excessive liquidation that had taken place previously.

In October, the strikes began and there was not only a very sharp decline in output, but a new difficulty of interpretation.

What effects will the strikes have and what will be the trend when they are over?

Unless the strikes last beyond the middle of November, I don't believe that any permanent damage will have been done to the economy. Steel stocks had been built up, and a strike of that duration will have reduced them. There will be a sharp rebound in output to offset the loss due to the strikes, but the basic trend will not be affected. And the basic trend was still moderately downward, in my opinion, because the readjustment in capital goods in-

(Continued on page 26)

*An address by Mr. Zelomek before University of Pennsylvania Club, New York City, Oct. 25, 1949.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Building for Prosperity—Discussion in current issue of "Perspective"—Calvin Bullock, 1 Wall Street, New York 5, N. Y.

Capital Goods' Stocks—Study in price movements—Francis I. du Pont & Co., 1 Wall Street, New York 5, N. Y.

Foreign Exchange Quotations—Lists 143 quotations of the currencies of various countries throughout the world — Foreign Department, Manufacturers Trust Co., 55 Broad Street, New York 15, N. Y.

Over-the-Counter Industrial Stock Index — Booklet recording 10-year performance of 35 industrial stocks—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

Over-the-Counter Utility Stocks—Comparative analysis—Scherck, Richter Co., Landreth Building, St. Louis 2, Mo.

Television—Special study of the industry—Bache & Co., 36 Wall Street, New York 5, N. Y.

You Do Not Have to Be a Millionaire . . . to Become a Part Owner of General Motors Corporation — A report in laymen's language on General Motors Stock, prepared especially for the novice investors—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

* * *

Arden Farms Co.—Diced Cream of America Co. — Circular — Edgerton, Wykoff & Co., 618 South Spring Street, Los Angeles 14, Calif.

Also available are circulars on **Atok-Big Wedge Mining Co.,** and **Purek Corp., Ltd.**

Ballard & Ballard Co.—Memorandum in current issue of "Local Notes"—The Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville 2, Ky.

Bingham-Herbrand Corporation—New circular—Wm. J. Mericka & Co., Inc., Union Commerce Building, Cleveland 14, Ohio.

Black, Sivalls & Bryson—Circular — Hecker & Co., Liberty Trust Building, Philadelphia 7, Pa.

Central Illinois Light Co.—Circular—Sills, Fairman & Harris, 209 South La Salle, Chicago 4, Ill.

Central Public Utility, Corp.—Memorandum—Gerstley, Sunstein & Co., 213 South Broad Street, Philadelphia 7, Pa.

Central Soya Company, Inc.—Analysis — Boenning & Co., 1606 Walnut Street, Philadelphia, 3, Pa.

Colombia Bolivia—New study—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Columbia Gas System—Circular—Fahnestock & Co., 65 Broadway, New York 6, N. Y.

Also available are circulars on **Corning Glass Works, Holland Furnace, National Bellas Hess, Inc., National Biscuit Co.,** and **Servel, Inc.**

Frontier Refining Co.—Circular—Sidlo, Roberts & Co., First National Bank Building, Denver 2, Colo.

Glass Fibers, Inc.—Circular—Kebbon, McCormick & Co., 231 South La Salle Street, Chicago 4, Ill.

Hershey Chocolate Corporation—Memorandum—Kean, Taylor & Co., 14 Wall Street, New York 5, N. Y.

Kellogg Co. — Circular — Swift, Henke & Co., 135 South La Salle Street, Chicago 3, Ill. Also available is a circular on **Morris Paper Mills.**

Louisiana—Ninth annual report of the Department of Revenue, State of Louisiana, for the fiscal year ended June 30, 1949—Available for banks, institutions, and dealers upon request—Scharff & Jones, 219 Carondelet Street, New Orleans 12, La.

McDonnell Aircraft Corporation—Analysis—Eastman, Dillion & Co., 15 Broad Street, New York 5, N. Y.

Middle South Utilities—Bulletin—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Morgan Engineering Co.—Circular—Leason & Co., 39 South La Salle Street, Chicago 3, Ill.

New England Public Service—New Study—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

New York & Harlem Railroad Co. — Circular — Main Securities Co., 465 Congress Street, Portland 2, Maine.

Oregon Portland Cement—Late data—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Charles Pfizer & Co.—Circular—Ernst & Co., 120 Broadway, New York 5, N. Y.

Rockwell Manufacturing Co — Circular — Wagenseller & Durst, 626 South Spring Street, Los Angeles 14, Calif.

Also available is a circular on **Transcontinental Gas Pipe Line Corp.**

Second National Bank of New Haven—Circular—Day, Stoddard & Williams, 95 Elm Street, New Haven 6, Conn.

Shatterproof Glass Corporation—Memorandum — Peter Barken, 32 Broadway, New York 4, N. Y.

Texas Utilities Co.—Circular—Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Tex.

Texas Utilities Company—New Study—White, Weld & Co., 40 Wall Street, New York 5, N. Y.

Webster-Chicago Corp. — Circular—F. S. Yantis & Co., 135 South La Salle Street, Chicago 3, Ill.

COMING EVENTS

In Investment Field

Nov. 15, 1949 (New York City)
Association of Stock Exchange firms annual meeting and election.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 9, 1949 (New York City)
New York Security Dealers Association 24th Annual Dinner at the Hotel Pierre Grand Ballroom.

Business Man's Bookshelf

Authority and the Individual—Bertrand Russell — Simon and Schuster, Inc., 1230 Sixth Avenue, New York 20, N. Y.—Cloth—$2.00.

Buying and Administering Corporate Insurance—Russell B. Gallagher — American Management Association, 330 West 42nd Street, New York 18, N. Y.—Paper—$3.75.

Foreign Exchange Quotations—New Edition dated Oct. 14, 1949, listing 143 quotations of the currencies of various countries throughout the world — Foreign Department, Manufacturers Trust Co., 55 Broad Street, New York 15, N. Y.

House of Baring in American Trade and Finance, The — 1763-1861 — Ralph W. Hidy — Harvard University Press, Cambridge 38, Mass.—Cloth—$7.50.

National Transportation Policy—Charles L. Dearing and Wilfred Owen—The Brookings Institution, Washington 6, D. C.—Cloth—$4.00.

Some Anomalies in the Steel Board's Report (and Some Fallacies of "Fact Finding")—Theodore R. Iserman — Automobile Manufacturers Association, New Center Building, Detroit 2, Mich.—Paper.

D. Raymond Kenney Co. Opens in New York

D. Raymond Kenney announces the formation of D. Raymond Kenney & Co. with offices at 41 Broad Street, New York City, to deal in general market securities. The new firm will be represented in the Commonwealth of Pennsylvania by Edgar P. Hamilton who will make his headquarters in Gettysburg, Pennsylvania.

D. Raymond Kenney

Mr. Kenney was formerly a partner in the dissolved firm of Kenney & Powell, with which Mr. Hamilton was also associated.

George A. Rogers Co. In New Location

George A. Rogers & Co., Inc., announce the removal of their offices to new quarters at 120 Broadway, New York 5, N. Y.

Joins Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA. — Henry F. Brock has become associated with Thomson & McKinnon, Healey Building. He was formerly with Courts & Co.

Joins H. C. Wainwright

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—William L. Rull has become affiliated with H. C. Wainwright & Co., 60 State Street, members of the New York and Boston Stock Exchanges. Mr. Rull was formerly with Chandler Hovey & Co.

Prizes Awarded to Junior Capitalists

Hy-Art Products Co., with $55.69 profit, wins Junior Achievement annual report contest. President Schram of Stock Exchange officiates and Shreve speaks.

First award in the contest conducted by the New York Stock Exchange for the best annual report submitted by a Junior Achievement company in 1949 was presented today by Emil Schram, President of the Exchange, to Alfred J. Lipira, Jr., and Miss Shirley Weinstock, who prepared the winning report of the junior company of Hy-Art Products Co., Newark, N. J. Award for second place in the contest was presented by Mr. Schram to Frank Bielawa, Jr., and William Daugherty, of On The Spot Recording Co., Chicago, Ill. The four contest winners were honored today at a luncheon at the Exchange.

Junior Achievement is a movement through high school boys and girls throughout the country learn, by conducting their own miniature business enterprises, how the American business system operates. The junior companies sell stock, usually at 50 cents a share, to raise the capital to start in business. Products are manufactured and sold as in a full-fledged business undertaking.

Hy-Are Products Co. made lucite desk calendars. It realized a net profit of $55.69 in the seven months ended last April 30. The junior companies are liquidated at the end of each fiscal year. Hy-Art Products returned to stockholders the amount of their original investment, plus a dividend of 25 cents.

On The Spot Recording Co. made disc-recordings of orchestral and vocal numbers and of commercial advertising messages. Its profits for the seven months ended May 31 totaled $79.73.

The winning reports were selected on the basis of clarity and effectiveness of presentation. Judges were Carle C. Conway, Chairman of the board, Continental Can Co.; Gale F. Johnston, public representative on the Board of Governors of the New York Stock Exchange; John L Carey, Executive Director of the American Institute of Accountants; Joseph M. Galanis, President of the New York Society of Security Analysts; and Phillip L. West, Assistant Vice-President of the Exchange. Charles B. Harding, a partner of Smith, Barney & Co., and a member of the National Advisory Council of Junior Achievement, described the considerations entering into the judging of the 174 reports submitted.

Earl O. Shreve, former President of the United States Chamber of Commerce and President of Junior Achievement, Inc., outlined the current Junior Achievement program. "The greatest investment opportunity in the nation today," he said, "is the opportunity to invest in our youth—in the leaders of tomorrow to whom we will look to preserve and perpetuate our system of private enterprise." The task his organization has undertaken, he added, is "to give the youth of America increasingly greater opportunities to learn and understand the procedures of the competitive business system."

Pennsylvania Brevities

Pennsylvania Power & Light Co.

Operating revenues of Pennsylvania Power & Light Co. for 1949 are expected to approach $70,000,000, compared with the $66,452,487 realized in 1948. After taxes and provision for dividends on a larger number of outstanding preferred shares, net income should exceed $2 per share on the common stock.

Billings under the higher rate schedules recently approved will start in December. In 1950 the company will derive the full benefit of the estimated $2,216,000 increase in gross revenues provided by the new rates.

Recent capital expenditures have expanded Pennsylvania Power & Light Co.'s generating capacity by about one-third and have resulted in production economies now being reflected in net earnings. An additional power loan has been afforded by the establishment of 84 new industrial plants in the company's territory so far this year.

* * *

Pittsburgh Sales Decline

PITTSBURGH — According to the Pittsburgh branch of the Federal Reserve Bank of Cleveland, department store sales in the Pittsburgh area have declined severely under the combined impact of the continued coal and steel strikes. For the week ended Oct. 22, sales were 30.1% less than for the comparable 1948 week. For the first 43 weeks of 1949, however, sales were only 6.7% below the same period of last year.

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Pittsburgh Rwys. Reorganization

Hearings on the Pittsburgh Railways Co. plan of reorganization before the SEC in Washington were concluded on Oct. 6. The Public Utility Division of the SEC is expected to report its findings on or before Dec. 1.

* * *

Alan Wood Steel Co.

Alan Wood Steel Co., Conshohocken, Pa., has declared a 5% stock dividend payable Jan. 1 to holders of record Dec. 1. Similar action was taken last July. Due to a restrictive clause in its first mortgage indenture, the company cannot pay common stock dividends in cash until its 30-inch hot rolled strip mill, now under construction, is installed and in operation. The company reports net income of $1,835,172 for the first nine months of 1949, compared with $2,383,890 in the corresponding last year period.

Stating that the new strip mill will probably be ready for operation about the turn of the year, John T. Whiting, President, added that installation of the new unit should considerably improve the company's competitive position and round out its activities.

* * *

Scott Paper Co. Anniversary

Celebrating its 70th anniversary, Scott Paper Co. of Chester, Pa., world's largest manufacturer of household paper products, has distributed an extra week's pay to its 2,000 employees.

Ceremonies were held in each of the company's eight plants across the country and were scheduled on a staggered time basis so that each shift could participate. Terming the bonus a "progress-through-quality-dividend," Raymond C. Mateer, Executive Vice-President, told employees that "adherence to quality pays off in steady wages and greater opportunities."

* * *

Autocar Co.

Although sales of Autocar Co. for the first nine months of 1949 are reported at $16,608,958, against $22,721,442 for the like period of 1948 and $30,871,587 for all of last year, W. M. Taylor, General Sales Manager, stated last week that an expected sharp rise in sales in the last quarter may bring company's dollar volume above that of 1948.

Mr. Taylor pointed out that the company's Ardmore, Pa., plant has been running at capacity for the last two months and is booked for full operation for at least the balance of the year. Company is currently engaged in filling a City of New York order for 200 heavy duty rubbish trucks, delivery to be completed by Jan. 1.

* * *

Hershey Chocolate Corp.

Due largely to a drop in the price of cocoa from 40 cents a pound to 23 cents over the last 12 months, earnings of Hershey Chocolate Corp. are rising in spite of lower gross sales. For the first nine months of 1949, company reports net profit of $10,020,520 compared with $7,540,607 in the 1948 period. Last year a reserve of $2,000,000 was set up against possible inventory losses. Since the company has worked through its high-cost cocoa and is now using supplies purchased at lower prices, a 1949 inventory reserve is considered unnecessary.

* * *

Lukens Steel Cuts Salaries

The steel strike has hit the salaried employees of Lukens Steel Co. in the neck. Effective Oct. 30 and to continue until a strike settlement is reached, salaries of full-time employees have been reduced 18%; half-time employees, 50%. Charles Lukens Huston, Jr., President, states that action was necessary "so the company may have ample funds with which to start up and to meet its financial obligations thereafter." Repayment of a loan to Penn Mutual Life Insurance Co. and electrification of its 206-inch mill will require expenditures of over $1,500,000 over the next several months.

* * *

Penna. Bell Rates Rise

Rate increases which will increase gross revenues by $17,963,000 a year have been granted the Bell Telephone Co. of Penna. by the Public Utility Commission. The higher charges will fall substantially short of providing the $25,000,000 which W. D. Gillen, company President, deemed necessary to put the company in a sound financial condition.

"It will be necessary," said Mr. Gillen, "for us to revise our program of expanding and improving telephone service in 1950 and 1951."

Residential telephone rates will be increased an average of about 55 cents per month; business telephones, about $3.50. Toll rates are not involved and the customer will continue to receive a bargain nickel's-worth at the coin-box in the telephone booth.

* * *

Higher Fares in Reading

The Pennsylvania Public Utility Commission has granted a rate increase to Reading Street Railway Co. which will add about $175,000 to annual revenues. Single zone cash fares are raised from 8 cents to 9 cents; token fares from 7½ cents to 8⅓ cents.

Montgomery, Scott Co. Adds to Staff

PHILADELPHIA, PA. — Montgomery, Scott & Co., 123 South Broad Street, members of principal stock and commodity exchanges, announce that Joseph Macpherson Fine, Henry G. Lodge, and Thomas A. Scott are associated with the firm as registered representatives in the Philadelphia office.

Mr. Lodge was formerly with Buckley Brothers.

In New Location

PHILADELPHIA, PA. — Hendricks & Eastwood, Inc., announce the removal of their Philadelphia offices from Packard Building to 1421 Chestnut St.

Pennsylvania Dealers' Program Designed to Stimulate Interest of Individuals in Securities

Advertising campaign sponsored by Pennsylvania Institute of Investment Firms is directed toward potential small investor.

PHILADELPHIA, PA.—With the publication of the first of a series of display advertisements in the Philadelphia "Inquirer" last Monday, the recently formed Pennsylvania Institute of Investment Firms initiated its long-range program designed to arouse and sustain the interest of the potential small investor in securities in general and in well-seasoned issues of Pennsylvania corporations in particular.

The first ad, captioned "Who's Eating Your Apple Pie?" points out that idle money is unproductive; that 1948 dividends paid by leading Pennsylvania companies averaged 7.8%; that you don't have to be a "big operator" to have investment income; that one-third of all company dividend payments now go to investors with yearly incomes of less than $5,000, and that there is no mystery in buying stocks.

Subsequent advertisements, to be published over a six months period, are written in a similar "down to earth" style and are patterned along educational lines.

The story behind the organization of the Pennsylvania Institute of Investment Firms and its projected program is of special interest to security dealers throughout the nation. The cooperative and voluntary character of the Institute's framework is readily adaptable to other groups in other localities. While in each area emphasis is directed to local securities, such programs merely supplement rather than compete with the excellent educational publicity prepared by the New York Stock Exchange.

Credit for the inception of the present well-organized program goes to Harold F. Scattergood, partner of Boenning & Co., Philadelphia, who, almost two years ago, presented his tentative ideas to District 12 of the National Association of Security Dealers. The NASD, wholeheartedly endorsing the movement in principle, felt that development of the proposed program was beyond its proper scope and should be undertaken by individual firms, preferably on a basis of mutual cooperation. It was then that Mr. Scattergood, ably assisted by R. Victor Mosley, Vice-President of Stroud & Co., and John F. Bunn, Partner, Bioren & Co., proceeded with the formation of the Pennsylvania Institute of Investment Firms.

The Institute is a non-profit corporation, membership in which is open to any individual, firm or corporation engaged in the investment banking or securities business in Pennsylvania upon payment of a subscription to defray the costs of a specific advertising campaign.

During and for the purposes of any specific campaign, members contributing $600 are classified as "A"; $400 as "B," and $200 as "C." Each published advertisement carries a return coupon directed to the Institute. Prepared material will be sent to each inquirer together with a list of all active members without reference to members' classification. Inquiries received by the Institute will be referred to contributing members for "follow up," but in the ratio of their classification; that is, a class "A" member will receive three "leads" to a class "B" member's two and to a class "C" member's one. All membership subscriptions are voluntary; there are no dues or assessments.

The first "send-out" consists of a carefully chosen selection of 100 Pennsylvania securities. Thumbnail descriptions will include 1948 earnings and dividends and indicated yields as of Sept. 30, 1949. All companies represented have paid continuous dividends for 20 years or longer. The list includes 32 listed and 68 unlisted issues.

Some 45 Philadelphia firms have joined in the initial cooperative effort. This novel method of joint educational marketing will be watched with keen interest in other financial centers.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF CONNECTICUT

The Security Traders Association of Connecticut have elected the following new officers:

Leslie B. Swan Donald B. Jacobs Don E. Hungerford Gordon H. N. Libby

President: Leslie B. Swan, Chas. W. Scranton & Co., New Haven.

First Vice-President: Donald Jacobs, Conning & Co., Hartford.

Second Vice-President: Donald E. Hungerford, Robert C. Buell & Co., Hartford.

Secretary-Treasurer: Gordon H. N. Libby, Coburn & Middlebrook, Inc., Hartford.

Governors are George A. Dockham, Hincks Bros. & Co., New Haven; E. Holbrook Bradley, Edw. M. Bradley & Co., New Haven; John Graham, Brainard-Judd & Co., Hartford, and Robert A. Bligh, Fahnestock & Co., Torrington, the retiring President.

National Committeeman is Mr. Swan with Mr. Jacobs alternate.

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NSTA Notes

(Continued from page 10)

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York announces the following candidates have been nominated for office for the year 1950:

President: John M. Mayer, Merrill Lynch, Pierce, Fenner & Beane.
First Vice-President: Leslie Barbier, G. A. Saxton & Co., Inc.,
Second Vice-President: Harry L. Arnold, Paine, Webber, Jackson & Curtis.
Secretary: John J. Meyers, Jr., Gordon Graves & Co.
Treasurer: George V. Hunt, Starkweather & Co.

John M. Mayer

Leslie Barbier

Harry L. Arnold

John J. Meyers, Jr.

George V. Hunt

Directors (two-year term): Richard H. Goodman, Shields & Co.; T. Frank MacKessy, Abbott, Proctor & Paine; John D. Ohlandt, Jr., J. Arthur Warner & Co. Inc.; D. Raymond Kenney, D. Raymond Kenney & Co.

Trustees of Gratuity Fund (two years): Philip H. Ackert, Freeman & Co.; David R. Mitchell, Blair F. Claybaugh & Co.

National Committeemen: Stanley Roggenburg, Roggenburg & Co.; Henry Oetjen, McGinnis, Bampton & Company; Gustave L. Levy, Goldman, Sachs & Co.

National Committeemen Alternates: Charles M. Zingraf, Laurence M. Marks & Co.; William H. Boland, Boland, Saffin & Co.; Irving P. Grace, W. C. Pitfield & Co. Inc.; Edwin J. Markham, Wertheim & Co.; Harold B. Smith, Pershing & Co.

Nominating Committee (four members to be elected): Herman D. Meyer, Stern & Co.; Bernard J. Conlon, P. F. Fox & Co.; William T. Mellin, Walter Murphy, Jr., & Co.; Harry F. Reed, Carl M. Loeb, Rhoades & Co.; John Gahan, Schoellkopf, Hutton & Pomeroy; Bernard Weissman, Siegel & Co.; Frank J. Orlando, Goodbody & Co.; Samual Gronick, Gilbert J. Postley & Co.; Charles Bruggeman, Dean Witter & Co.; Gustav J. Grindel, Francis I. duPont & Co.; Charles H. Jann, Estabrook & Co.

Nominations other than those selected by the Nominating Committee can be made by a petition presented to the Secretary endorsed by 15% of the members eligible to vote for candidates. All nominations shall close 15 days prior to the annual election. The Secretary shall submit to the membership, in writing, a list of all nominations at least 10 days prior to the annual election. No further nominations may be made at the annual meeting.

Members of the Nominating Committee are: John J. O'Kane, Jr., John J. O'Kane, Jr. & Co., Chairman; D. Frederick Barton, Eastman, Dillon & Co.; John S. French, A. C. Allyn & Co.; Thomas Greenberg, C. E. Unterberg & Co.; Theodore Plumridge, J. Arthur Warner & Co., Inc.

F. W. Reichard With B. J. Van Ingen & Co.

B. J. Van Ingen & Co. Inc., 57 William Street, New York City, announce that Fred W. Reichard has become associated with the firm in its New York office. Mr. Reichard was previously Manager of the municipal department of E. H. Rollins & Sons, Inc., and in the past conducted his own investment firm in New York.

Henshaw, Selheimer With Reynolds & Co.

PHILADELPHIA, PA. — The Philadelphia office of Reynolds & Co., 1528 Walnut Street, members of the New York Stock Exchange, announces that Perry N. Selheimer and William F. Henshaw, Jr. have become associated with them.

Carl E. Dyas Joins Goodbody Co. Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO.—Carl E. Dyas has become associated with Goodbody & Co., National City East Sixth Building. Mr. Dyas was formerly with Merrill Lynch, Pierce, Fenner & Beane and prior thereto was with Francis I. du Pont & Co. and Hirsch & Co.

G. Beale Bloomer

WASHINGTON, D. C.—G. Beale Bloomer is continuing the investment business formerly conducted by Harriet Holther. In the past Mr. Bloomer was associated with Robinson, Rohrbaugh & Lukens.

Norman Dacey Adds

(Special to THE FINANCIAL CHRONICLE)

BRIDGEPORT, CONN.—Harry S. Irons is with Norman F. Dacey and Associates, 955 Main Street.

Current Trends and the Business Cycle

By EDWIN B. GEORGE*

Economist, Dun & Bradstreet, Inc.

After reviewing and analyzing factors relating to business fluctuations and their remedies, Mr. George concludes our economic system still exhibits strong tendency to bunch demand for both consumers' and producers' durable goods thus creating a cyclical pressure, reinforced by elasticity of credit system. Contends, despite strengthening of defenses against severe downward businesss swings, major economic difficulties arising from business cycles are not yet resolved.

Examination of cycle theories, and of the historical record of fluctuations, does disclose a few attributes of our economic system that help explain why such movements, instead of being self-correcting, have been cumulative to some more or less distant turning point, and then cumulated the other way. This becomes a study in mechanics, not diagnosis. And I am going to call these characteristics "structural properties"—even though some are not so much a part of the system's framework as they are patterns of behavior that have varied significantly in the past. The last ten years have seen pronounced changes in many of these properties, and apparently more are still to come. It is these properties, and the changes in them, and their significance for future business cycles, that I propose to discuss.

Edwin B. George

I will have nothing to say—or almost nothing—about the long-run desirability of the policies and practices to be discussed. To do otherwise would be not only to exceed my assignment — fortunately—but to take on an impossible burden for liquidation in the time we have available. So for today's purposes I'm going to pretend in the main that I don't care whether the underlying policies are in the long-run good or bad. Even that escape is deceptive because obviously much would depend on the manner of their administration.

The properties that I have in mind can be grouped conveniently under four broad headings: (1) What economists call "Built-in-Flexibility"; (2) Price Expectations; (3) Money, Other Liquid Assets, and Monetary Policy; and (4) Other Factors.

Built-In Flexibility

By this phrase is meant those properties of the economic system that tend to counter (although not completely offset) shifts in activity from desirable levels into boom or recession. By and large such properties are now and will remain much stronger than before World War II. A brief summary of the major ones will make this clear.

(1) The tendency for Federal excise, personal and corporate income tax collections (and thus total Federal tax receipts) to rise or fall substantially and (except for excises) more than proportionately with changes in business activity. In the case of the personal levy, this results both from the fairly low exemption level and high first-bracket rate (as compared with prewar which is what we are doing and must do throughout) plus fairly steep progression in the surtax rate schedule. Surtax progression is of course not significant in the case of the corporate tax since the vast bulk of corporate income is subject to a (higher-than-prewar) flat rate. On the other hand corporate profits are the most volatile share in national income, rising very sharply when with a jump in activity and declining—perhaps becoming negative—when demand slides off. So in reality even this levy is very flexible.

The degree to which these forces will compensate any change in activity will of course depend upon the initial height of that activity (in monetary terms) and the exact tax structure in effect. It is clear, however, that under conditions prevailing at any time during the postwar years to date and under any conditions that will obtain in the calculable future, it will be quite large. Musgrave and Miller, for example have estimated that under 1946-47 tax rules and rate and levels of taxable income, the total Federal tax system's built-in flexibility (treating transfer payments such as unemployment insurance benefits as negative taxes or money paid out by the Government to individuals instead of collected from them) would approximate 36%. This means that the automatic adjustment inherent in such a structure would offset 36% of any total change in income resulting (from rising or falling for investment, or consumption would give rise to the absence of such flexibility). Now this figure takes into account other Federal levies and is based upon the higher personal income rates of 1947, thus tending to overstate somewhat present-day potentialities. Actually, I suspect that such a tendency is offset by the use of what I regard as a very low estimate in the basic calculation for the proportion of additional or lost income that would be spent on consumption goods. We may say, in other words, that the factors under consideration themselves provide a flexibility of roughly one-third (.333). The prewar figure could have been nothing like this — especially in view of the fact that in these days personal tax collections lagged by a year or more whereas at present they occur concurrently with changes in income in large part.

(2) **Unemployment Insurance**—As matters now stand, the effect of this device is to contribute positively to stabilization from both sides, since contributions rise and benefits fall with rising employment and vice-versa. If anything, the future will see a strengthening of this factor—ceiling weekly benefits are likely to be raised, the total payment period lengthened, and contributions may undergo some increase.

(3) **The Federal Old-Age Pension Plan**—Under present rules, both employers and employees contribute monthly the equivalent of 2% of payrolls, the payments covering only employees currently at work. Disbursements, on the other hand, are related directly to the number of workers over 65 who are in retirement (or to the number of "dependents" of those insured workers who have died before reaching retirement age). Such outlays, therefore, are largely independent of cyclical fluctuations, whereas contributions move directly with employment and earnings.

At present this element in and of itself is not a major component of the system's built-in flexibility. It simportance, however, will

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*An address by Mr. George before the National Conference of Commercial Receivables, Inc., New York City, Oct. 25, 1949.

Alfred L. Powell Forms Own Investment Firm

Alfred L. Powell announces the formation of Alfred L. Powell

Alfred L. Powell

Company, with offices at 41 Broad Street, New York City, to conduct an investment business in general market securities. Mr. Powell was formerly a partner in Kenney & Powell which has been dissolved.

Mutual Funds

By HENRY HUNT

Spare Time

Inasmuch as the following advertisement published by the Fidelity-Philadelphia Trust Company makes a point which is sometimes overlooked by investors, we think that it may be of some interest to our readers:

"Mr. Brownstone, being a successful man in his business, came to the singular conclusion that he could, therefore, be a successful man in any business.

"To prove his point, he waved aside Mrs. Brownstone's suggestion that he seek outside counsel and advice about his personal investments, telling her that he was quite capable of managing such things himself in his spare time.

"But Mr. Brownstone's spare time—what with fixing the clocks, installing the television set, and playing golf and bridge—was too spare to do his investments justice. And before Mr. Brownstone was willing to admit that things weren't precisely as they should have been, he made the alarming discovery **that he had been using his spare time to lose a great deal of the money he had so skillfully made at work!**"

"The Fidelity-Philadelphia Trust Company is, of course, offering its investment supervisory service to Mr. Brownstone, but what he might also consider is a mutual investment company. These funds, as well as the investment supervisory services of banks, offer a convenient way of handling a security account which relieves the investor of the care, worry and concern involved in the selection and supervision of a list of individual securities. Also, the investor can be assured that an organization of trained men devoting **full-time** to the task will make fewer mistakes than the average investor who tries to combine investment management with some other full-time job."—From Vance, Sanders "Brevits."

"Fidelity" Showing Rapid Growth

The **Fidelity Fund of Boston** has shown rapid growth during the past year and a half as the following figures indicate:

	Total Net Assets at Market Value	Number of Shares Outstanding
March 31, 1948	$16,362,693	694,062
Sept. 30, 1948	18,239,195	763,053
March 31, 1949	20,598,490	905,220
Sept. 30, 1949	26,245,530	1,068,116

"Fidelity," largely a common stock fund today, also has an excellent management record, the present per share asset value being above the 1946 year-end figure.

A Recession in '52?

Calvin Bullock's latest issue of "Perspective" discusses the outlook for housing construction. It concludes as follows:

"In view of the fact that demand for housing may turn down in about two years and that only about two years more are required to restore the passenger car population to a normal age distribution the economy could conceivably face another period of readjustment in early 1952. The likelihood would be increased if we could be sure of a decline in ECA expenditures as well. Once again a healthy construction industry could provide basic strength. Indeed, the possibility that business activity might undulate for some time around a level of basic strength imparted by a healthy construction industry throws doubt on the validity of the popular assumption that we must be purged by a single sizable initial post-war recession before we are entitled to the fruits of stable prosperity."

Chemical Dividends Up

It is interesting to note from the third quarter report of **Chemical Fund** that during the first nine months of 1949, dividend payments on its underlying securities were up 13% despite a moderate decline in earnings. Net assets of the Fund approximated $25,000,000 on Sept. 30.

George Putnam Comments

"The atmosphere is clearing. Most of us have felt for many months that the British would not be able to maintain the former value of the pound. Now that the cut has been made there is a strong feeling of relief. Some of the uncertainty has gone, and we can lay our plans from here on with more confidence.

"Another cloud that has been hanging over the business horizon for several years has been the unbridled power of some of our labor leaders. It now looks as though this issue might be coming out into the open.

"How will these changes affect our economy and our markets? We feel that both of these developments are constructive from an investment point of view.

"Most authorities agree that a more realistic relationship of currencies is a necessary step in the direction of increased world trade, which is very important from the standpoint of such great trading nations as England. Devaluation should result in lower prices for international commodities such as wheat, rubber, tin and many others. Increased imports into this country and greater competition for our exports in foreign markets are also to be expected. It will take time to appraise properly the full effects of devaluation and there are other important international factors that must be watched closely in the months ahead.

"Traditionally the American people have always been opposed to monopolies. They have insisted upon free and open competition, and probably no other factor has been more responsible over the years for this country's truly amazing economic progress.

"Sooner or later the American people must also decide what to do about the monopolistic power of the labor unions. This problem is becoming more and more apparent and, personally, we have no doubt what the eventual answer of the people will be."

Reports Strike Impact on Business

Business Survey Committee of National Association of Purchasing Agents sees general buying power of public in many areas being reduced.

According to the composite opinion of purchasing agents who comprise the Business Survey Committee of the National Association of Purchasing Agents, whose Chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Corporation, Division of Olin Industries, Inc., New Haven Connecticut, the boomlet in general business reported by purchasing executives in August and September has petered out during October. The full impact of the coal, steel and aluminum strikes has not yet been felt by all industry. The timing of this effect, as reported by survey committee members, summarizes as follows: 25% are slowed down as the result of strikes now; 34% more expect to be retarded if the strikes continue well into November; 21% more will be affected one month later, and 8% can hold production about 90 days. Only 12% see no immediate or future reaction from the present strikes, except as they will suffer with the whole economy if increasing unemployment is prolonged, thereby reducing the general buying power of the public in many areas.

Robert C. Swanton

Should the mines and mills go back to work at once, the supply line vacuum already created will slow many manufacturing operations for several months before production of the basic materials can fill the postponed order schedules.

In October, the production increases of the previous two months were shaved down 14%. Back-order positions declined to about the July figures. Prices for the most part remained steady. Purchased inventories continued to drop over-all, though 22% reported increases, the highest number since June of 1948. Re-employment has slowed down. Many report shorter work time. Buying policy is cautious and of short range.

Commodity Prices

Price movements for the month have not been important in either direction, the drop in lead, zinc, tin and antimony being the notable exceptions. The down trend of several months, which appeared to be halted in September, has resumed, but with little force, as 75% report no change in general price structures. Competition for fabricated parts is keener. It is commented that the future price trend depends much on strike settlements. It is believed that many lower adjustments were in the making and are held up because of labor troubles. There is some evidence of premium or gray market steel,

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Mutual Funds and Their Investment Advantages

By O. GLENN SAXON, Professor of Economics, Yale University

Reviewing nature and growth of Mutual Funds, Prof. Saxon points out their advantages as ideal vehicle for "dollar averaging," and thus reducing risks of small individual investors. Says these advantages are made use of by fiduciaries and wealthy investors as well as by numerous savers with limited means. Holds mutual funds also have important economic and social significance and that Congress and state legislatures should remove obstacles which impede distribution of their shares among people.

When a group of individuals combine all or part of their financial resources in a common fund and hire someone to invest and manage this fund for them on a fee basis, with each participating individual retaining a pro rata ownership interest in the fund and a pro rata share in the income and profits therefrom (less expenses of management), that would be the beginning of a Mutual Investment Fund. As more people put their money into it and the fund grew to large size, it would be possible to hire better management at a lower per unit cost, so that ultimately each of the scattered owners of the fund, regardless of the size of their participation, would obtain the investment management benefits and the wide diversification that otherwise are available at reasonable cost only to very wealthy investors. This is the fundamental concept of the **Mutual Fund.**


Dr. O. Glenn Saxon

There are now operating in this country nearly 100 Mutual Funds or "open-end" investment companies, having combined estimated assests of over $1,755,000,000, and an aggregate of over 840,000 shareholders. These companies fall into several distinctively different categories.

First, there are the so-called Diversified Common Stock Funds. These companies are designed primarily to provide the investor with a diversified and supervised ownership interest in sound common stocks (although most of them may at times hold government bonds in amounts varying with certain phases of the investment market). Characteristically the Common Stock Funds afford relatively generous income return as well as opportunity for long-term appreciation of principal.

Second, there are the so-called Balanced or Fully Managed Funds, which invest their capital in diversified lists of government or corporate bonds, preferred stocks and common stocks, varying the proportion of each in accordance with their managements' appraisals of business, financial, and economic conditions. These Balanced Funds lend themselves appropriately to utilization by investors who wish to turn over their investment accounts largely or entirely to professional investment managers.

Third, there are the so-called Speciality or Special Purpose Funds which vary widely in their character and objectives. One such Fund may be invested entirely in the common stocks of companies in a single industry, i.e. the Steel industry or the Automobile industry; others may be invested entirely in classes of bonds or preferred stocks of varying degrees of speculative or investment quality; still others may be invested entirely in high quality bonds. Obviously, the selection for purchase and the continued holding of many of such special investment purpose funds require judgment on the part of the investor or his adviser and continuous supervision to determine the desirability of their continued retention under varying economic conditions or changes in the investor's objectives.

All these "open-end" companies (Mutual Funds) have one thing in common which distinguishes them from other types of investment companies. They are authorized to issue additional shares without limit, as new investors may desire to participate in their ownership, and they guarantee to their shareholders the right to sell at any time all or any part of their shares back to the company for cash at the prevailing net liquidating value on demand. This unique feature insures ready marketability for the shares—an investor at any time can buy or sell one share or ten thousand shares at a firm price based upon the prevailing asset value.

In addition to the advantages of wide diversification, or spreading of risks among many different securities, and constant professional management, these mutual funds offer the investor all the advantages of a private custodianship account. All cash and securities are held in trust in some designated reputable bank or trust company which keeps all records, collects all income, and disperses it on a pro rata basis. with a single check at regular intervals to each shareholder, thereby largely eliminating burdensome accounting and income tax detail.

Judging Investment Results

The investment results derived from any two or more Mutual Investment Companies will, of course, always vary to some extent. Depending upon the period covered, the investment objective, and the character of holdings, this variance may be great or small. The quality of the supervisory work performed by individual management groups is also a factor affecting the variance of results among companies with the same policies and investment objectives. From the investors' standpoint, performance results over some past period provide some indications of past management ability, but it is perhaps of equal importance for the investor to know, (1) what the fund's long-range investment objectives now are, and (2) what the reputation of the management of the company is from the standpoint of character, integrity, and ability. Buying shares of a Mutual Investment Company is a good deal like buying insurance. The purchaser must determine what type of company and what investment objective are best suited to his particular requirements. And he will want to be sure that he is investing in a strong company guided by men who have established a reputation for successfully managing the investments of others. When he has made his selection on this basis, he can enjoy the satisfaction of knowing that he will certainly experience better results (in whatever direction his objectives aim) than if he were to attempt to do the job himself, handicapped as he is by lack of time, experience and facilities.

In handling their investments, insurance companies employ the law of averages with large numbers of different securities under full-time management to the successful performance of their functions. So, too, do Mutual Investment Companies with equally successful results in their specialized field.

Also, just as many people divide their insurance among several different companies for added safety and for varying purposes, so, too, do many people find it advantageous to place their investment savings in several different Mutual Investment Companies. Added safety, stronger assurance of satisfactory overall results, spacing of income receipts so as to have dividends coming in every month or so throughout the year are a few of the advantages to be gained by employing this practice.

Ideal Vehicle for "Dollar Averaging"

Mutual Investment Companies lend themselves especially well to the application of that well known form of systematic investment of savings called "Dollar Averaging", i.e. periodically investing the same dollar amount of savings at regular intervals. The principle which makes this method of investing so successful is simple but highly effective. In a fluctuating market the same number of dollars buys fewer shares at high prices and more shares at low prices. Operation of this simple arithmetical principle results in the average cost per share automatically being lower than the average price at which shares have sold during any given period of time. For example, if at successive periodic intervals shares sell at $40, $30, $20, $20, $30 and $40, the average of all these prices is $30. But, if the same dollar amount is invested at each price level, the average cost per share is only $27.69. Beyond this substantial automatic advantage in cost as compared to average price, it may be noted that, while the prices at the beginning and at the end of the period were the same ($40 in each case), the average cost per share resulting from regular periodic purchases in equal dollar amounts throughout the complete cycle of price fluctuation was only $27.69. Thus, without any net gain occurring in the price of the shares from the beginning to the end of the period, application of the principle of Dollar Averaging produces a profit of $12.31 per share or a 44% increase in the value of the invested principal.

Apart from automatically insuring a lower cost price than the average price at which shares have sold, as well as providing, with a minimum of risk, an opportunity for worthwhile increases in the value of invested principal, this plan has the great virtue for the conservative investor of turning stock price fluctuations to the investor's substantial advantage rather than having such fluctuations constitute what otherwise would be a substantial risk. In short, the difficult problem of timing purchases with a view to gaining an advantage from price fluctuations is automatically solved to a major extent and the risk of sustaining a severe loss due to faulty timing of purchases is very largely dissipated, when the principle of Dollar Averaging is followed consistently and applied to the purchase of a sound, dependable investment medium such as the better mutual investment companies have proved themselves to be.

Meeting the Needs of Fiduciaries And Large Investors

With personal savings in the United States now estimated at more than $10 billion per year and with the larger share thereof going to income-earners of $10,000 or less, these mutual companies hold a special appeal to the smaller and the average investor. In fact, they are primarily designed to meet the peculiar needs of such investors, but their performance record has been so excellent that they are now used extensively by large-scale, wealthy investors as well as trustees of both large and small estates under wills and deeds, by fiduciaries of school or college endowment funds and religious or charitable organizations, and, more recently, by the rapidly

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Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

Although fire insurance stocks, as a group, have advanced approximately 30% in a little over a year and are now at or above the highest level reached in over 12 years, relative to prospective earnings and liquidating values they continue to be attractive investments.

Even though 1948 ranked as one of the most profitable periods in the fire insurance industry, results for the current year will almost surely surpass those of a year ago by a considerable margin.

The improvement in operating earnings will result primarily from better underwriting results. For the first six months of the current period a decline in the loss ratio and a lower rate of gain in premium volume enabled companies to show a substantial expansion in statutory underwriting profits as compared with moderate losses a year ago.

The fundamental factors in the underwriting end of the business continue to be favorable and for the full year the underwriting profit margin for a representative group of companies may exceed 16% as compared with approximately 10% for 1948.

Concerning investment income, further gains are indicated. With a larger volume of funds available and an increased amount of resources invested in equities or other high yielding securities, this division of the business should also reach record levels. While results for individual companies may vary considerably depending upon the particular circumstances and investment policy an overall gain of between 8%-10% would seem to be indicated.

Taxes, of course, will show a large expansion. The increase should bear a direct relationship to the gain in statutory underwriting results. Nevertheless, total operating earnings are likely to show increases on the average of around 25% and vary between 10% and 40% depending upon the individual company.

If such estimates are reasonably correct, it would mean that insurance shares at the present time are selling on the basis of four, five, six and seven times estimated earnings of the current year.

After allowing for the payment of dividends, there will still be a large percentage of earnings retained to build up the shareholder's equity. Another factor which will add to the equity of stockholders is the recent rise in the stock market.

Most fire insurance companies have considerable holdings of common stocks, primarily investment type, high quality issues. In some cases the percentage of common stocks amounts to over 40% of the total portfolio. Fluctuations in the prices of equities are reflected in the stockholders' share in the surplus of the company.

After several months of advancing prices and with the stock market now selling in an area close to the highest levels reached in the past three years, the liquidating value behind the respective insurance company portfolios have been benefiting correspondingly.

At the end of 1948 the Dow-Jones Average of industrials was 177.30. As of Nov. 1, this average had advanced to 191.23. While the effects of this advance will be moderated depending upon the makeup of a particular company's portfolio, in all cases where any sizable amount of common stocks are held, the liquidating value of the stockholders' equity should increase.

The combined results of a large amount of retained earnings and an improved stock market will be an increase in the liquidating values of particular companies by as much as 10% to 15%. In spite of the advance in quotation of insurance shares they are still priced below these increased liquidating values by as much as 25%.

Thus on both the basis of operating earnings and relationship to liquidating values, most insurance shares are still fairly priced. It is only from the yield standpoint that the stocks seem to be held down. In a number of cases the return on high quality issues is around 2% or 3%. Even here, however, when indications or announcements of higher payments are made the share shows considerable improvement in price.

Over the next few years there is a good basis for expecting a liberalization of dividend payments. It is likely to be a gradual process with additional companies paying stock dividends as well as larger cash distributions. This should, along with the statistical position of the various companies, provide a strong floor under share prices. It should supply the necessary factor required for stocks to move closer to historical relationships between earnings, dividends and liquidating values.

Sales Mgr. For Johnson in Phila.

PHILADELPHIA, PA.—R. H. Johnson & Co., 1421 Chestnut Street, announce that Edmund Kearsley Hartley has been appointed Sales Manager of the Philadelphia office and that Donald Moss is associated with the firm in its statistical department.

Clark, Landstreet & Kirkpatrick Formed

NASHVILLE, TENN.—Clark, Landstreet & Kirkpatrick, Inc. has been formed with offices at 111 Union Street to engage in the securities business. Principals of the firm are Harold W. Clark, B. W. Landstreet, III, and Edward L. Kirkpatrick, Jr. Mr. Clark and Mr. Kirkpatrick were formerly with J. C. Bradford & Co. Mr. Landstreet was with the Hermitage Securities Company, Inc.

Ray. Stephens With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Raymond E. Stephens has again become associated with E. F. Hutton & Co., 463 North Rodeo Drive. Mr. Stephens recently withdrew from partnership in Daniel Reeves & Co.

How Business and Government Can Get Together

By COURTNEY C. BROWN*
Assistant Head of Coordination and Economics Department
Standard Oil Co. (New Jersey)

Business economist maintains best way to minimize recession is by expanding total market within and across national boundaries, keeping special interests behind those of the whole community. Warns of harm to productive system if some groups get rewards out of proportion to what they contribute.

The idea of government-business cooperation to maintain prosperity has been much discussed over a period of years, it has been incorporated in Federal legislation since the Employment Act of 1946. But I submit, the substance of the idea has not yet been developed with the precision necessary to determine its real possibilities. We are in an almost new analytical field on this one. A real contribution will be made by this meeting if we should succeed in pushing our thinking forward even a little bit.

C. C. Brown

Prosperity is something that everybody can endorse. We all like it. We all want to do those things which are most likely to assure its maintenance. But before coming to grips with the methods that may be available to government and to business to maintain prosperity, it is perhaps appropriate to mention some of the things that make the simple job of getting together difficult.

When we speak of business, we are in fact speaking of a lot of individual and competitive interests, which is just what it should be. There can be no single spokesman for business, although there has developed, in recent years, through trade associations and business research groups, a greater channelling of business opinion and judgment. But business opinion on desirable courses of action can be most useful to government thinking, if it is accompanied by an accurate reporting of what has happened and what is planned for the future in the business world. The same is true, of course, when government is reporting its opinions and plans to business.

There has been great improvement in the adequacy and accuracy of business statistics and government statistics during the past several decades. But it is still difficult to see how any group in business can be equipped to report accurately future business plans to the government. Even the surveys on future capital outlays made by such organizations as McGraw-Hill, or by the Securities Exchange Commission, are only indications, and subject to changes in the plans that may have already occurred by the time the final results are published.

These are difficulties that are inherent and arise from the organization of business. Other types of difficulties may be more amenable to improvement. Many of the contacts between government and business today are conducted on a plane that lacks the mutual confidence and respect that is essential if understanding and effective action are to result. The situation in this respect, I believe, is also improving, but at a pace that is discouragingly slow. If we could all accept the premise that government officials and business executives are recruited from a cross section of the populace, and that neither group is more moral, ethical, honest, diligent or selfish than the other, I think we could make more progress.

So much for the inherent difficulties that stand in the way of business and government getting together. Unfortunately, we also run into some complications when we turn to the *methods* that may be available for business and government to maintain prosperity.

I do not believe that anyone is so sanguine as to feel that it is possible to eliminate all business fluctuation. The level of total business activity is after all the aggregate activity of many different types of economic effort and enterprise. Some are expanding and some are contracting. The idea that the aggregate can be maintained at an approximately constant volume strains credulity. But that does not deny the possibility, or the desirability, of eliminating the extremes of fluctuations in the aggregate of activity, and it is to that purpose that I believe most of us address ourselves when we talk about maintaining prosperity.

One of the devices to maintain prosperity that is frequently recited is the stabilization of total investment outlays, both public and private.

Private or business investment is influenced by a number of things. The total that *can* be made cannot exceed the amount of depreciation, plus retained profits, plus net change in debt, plus commitment of equity capital, usually new capital funds obtained in the organized security markets. The total business investment that *will* be made will depend primarily on management's judgment of the stockholder's best interest, and in this profitability is usually of prime importance. That is a matter that is compelled by common sense as well as by law. A business that is unprofitable for a period of time will find that it is no longer a business.

But there is a latitude in the interpretation of the stockholder's best interest. Most of our text books tell us that the degree of profitableness—it may be phrased as the marginal efficiency of capital—is the overriding consideration. There is a suggestion of immediacy in the profitability. But immediate profitability may or may not be the prime consideration when the stockholder's long-run interest is recognized.

Business outlays for hospitals, schools and other civic facilities, for example, are designed to assure a high level of well-being and morale on the part of those associated with the enterprise. The investment may look like a desirable one in such cases for the long-run interest of the stockholder, even though it may have no discernible payout associated with it. Or again, during periods of short supply, there have been times when American enterprise has deliberately limited new capital outlays to those projects which would increase available supplies, and because of a shortage of capital, has denied investment in those projects where large payouts could result, but without accompanying increases in supply.

Influence of Profit Motive

It is doubtful, however, whether instances such as these account for a very large proportion of total business investment. Although quantitative data are lacking, I should expect that the great bulk of private investment decisions are primarily influenced by the business outlook—by the prospect of profit. This is true in varying degree whether these decisions involve reinvestment of depreciation allowances, net additions to existing plant and equipment, or new investment in new products and processes. Therefore, despite the non-pecuniary considerations that more or less frequently impinge upon investment decisions, the outlook is not very encouraging for an adjustment of total business investment to the requirements of contra-cyclical policy, except within very narrow limits indeed.

There likewise appears to be a somewhat limited opportunity for municipal investment outlays to be adjusted to cyclical requirement. That leaves the Federal Government as the only remaining important contributor to a contra-cyclical capital investment policy. But there we run into the impact of expanding Federal outlays on the budget, and the reverberations that deficit financing may have on business expectations, sentiment, and in turn, upon business investment.

The same reverberations are encountered when we shift the analysis to compensatory fiscal policy of the Federal Government, whether it be induced by expanding capital outlays, or simply by a stable level of expenditures for all purposes against a contracting take by the tax collector. All the literature that I have examined, which has elaborated the Keynesian plausibilities of fiscal policy as an effective contra-cyclical device, has supplied me as of today, with more logic than conviction.

In the first place there is the matter of inherent difficulties of timing—of forecasting with sufficient accuracy to know when to take preventive fiscal measures. The sheer difficulty of translating policy into action, once policy has been determined, also involves an unpredictable timing factor. Moreover, organized pressure groups are sufficiently strong to exert a continuous expansionary influence on fiscal policy, regardless of the stage of the cycle, and policy is not likely to conform to the theoretical requirements of the situation. Witness the current deficit at a time of high level activity.

Result Unpredictable

But perhaps the most serious limitation is that the result of any given fiscal policy designed to prevent business contraction is unpredictable, and I fear will remain unpredictable in the discernible future, because of the impact of the resulting deficit on prospective future taxes, and the effect of this in turn on business sentiment. This can only suggest that the opportunities of effective contra-cyclical measures by stabilizing total investment, or undertaking a compensatory fiscal policy in any manner are, at this stage of our thinking, of only limited promise.

There is another area in which students have worked with a view to finding ways of eliminating extreme cyclical fluctuations. It is held that by revising the pattern of distribution of the fruits of economic activity, we can avoid the periodic deficiencies of demand, or if you want to stand on the other side of the shield, the periodic surpluses of production, that appear to provide the initial

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*Address of Dr. Brown at Forum of Associates of New School for Social Research, New York City, Oct. 21, 1949.

Business and Government Together Can Achieve Prosperity

By JACOB K. JAVITS*
Republican-Liberal Member of Congress, New York

Mr. Javits declares we need new technique to increase national income to $300 billion, to support our annual budgets of $40-45 billion. Proposes a "Federal Economic Commission" to formulate economic goals by consultation and agreement, but without compulsion.

The only way in which our prosperity can be maintained in the United States is for business and government to get together to do it; more than that, our very freedom is in jeopardy unless this is done. For should we have another cataclysmic depression of the magnitude of the early thirties, it could well be the end of our constitutional guarantees of liberty. The basis of the Communist system is that government controls all the jobs; hence, the temptation to perpetuate itself and to be a tyranny is irresistible. Under our constitutional system, the citizen is an independent factor in the country's economy and therefore he can be an independent voter. The 5,000,000 government employees—city, state and Federal—are still less than 10% of our working population and therefore do not compromise our system.

Hon. Jacob K. Javits

Business and government are not getting together to maintain prosperity because business is not yet a disciplined commonwealth of its own, with workers, management, consumers and farmers having a voice in establishing its social responsibility.

The Five Main Problems

There are five main problems to be solved to enable business and government to get together to maintain prosperity:

First: The coordination of business' pension and similar plans with governmental social security.

Second: The effective safeguarding of the essential right of the community to operate despite labor conflict. We have examples right now in the steel, coal and aluminum strikes.

Third: The settlement of the respective areas of operation for government and business so that government may act in areas where business would not operate and establish a basis for increasing and improving business. Outstanding examples are the valley authorities like TVA and MVA and the operation of the Point 4 program in overseas underdevel-

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*A talk by Congressman Javits before Dinner-Forum of the Associate Members of the New School, Oct. 21, 1949.

Business and Government Must Compromise

By BENJAMIN GRAHAM*
President, Graham-Newman Corporation

Mr. Graham asserts Business and Government can get together to maintain prosperity if both factors will change their now dominant attitudes. Says business must realistically adjust itself to increasing Governmental welfare activities, and should confine its opposition to extravagance and inefficiency therein. Asks Government to stop hampering business in directions of taxation, regulation, and competition.

I

Business and Government can get together to maintain prosperity if both factors will change their now dominant attitude along the following lines: (a) Business should accept the fact that under 20th century conditions the **welfare** activities of government are bound to expand more or less steadily; (b) Government should accept the fact that we cannot have full employment and freedom of enterprise unless business is fostered and encouraged, instead of being persecuted and annoyed to death.

Benjamin Graham

II

Human welfare is the concern of every kind of present-day government, our own as much as England's or Russia's. Business should recognize that the scope of welfare activities must necessarily increase as our potential living standard advances — the more so since full employment is now recognized as a welfare objective. Welfare activity will not and should not diminish because our national product and tax receipts decline in a depression. Business should adjust itself to the fact that any substantial cyclical downturn in employment will bring an increase in welfare expenditures.

III

Opposition to Welfare State Is Bad Politics

I believe the campaign of business against what it calls the "Welfare State" is bad politics, for it implies opposition to welfare as such. What business should oppose, as strenuously as it can, is extravagance and inefficiency in the conduct of welfare activities. (Extravagance includes grandiose plans beyond the capacity of our national resources.) The essential point here is that if borrowing is necessary, care in spending becomes still more necessary. A debtor government like a borrowing individual or corporation—has a special duty to see that it gets full value for every

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*Statement by Mr. Graham at a dinner-forum of the Associate Members of the New School, New York City, Oct. 21, 1949.

Government-Business Relations—Lessons From the Past

By RUFUS S. TUCKER*
Economist, General Motors Corp.

Stating consultation of past experience is necessary for understanding present problems, Dr. Tucker asserts government controls have frequently operated in direction opposite from that intended, that whether successful or not have been extended in scope, and the period freest from them was the period of greatest prosperity growth. As constructive suggestions, he advocates: (1) government's budget-balancing and restoration of sound currency; (2) its withdrawal from money-lending business; (3) honest publication of its accounts; (4) equal enforcement of laws against capital and labor; and (5) clearing-up of "mess" in old-age insurance.

Since I am firmly convinced that in order to understand the problems of the present it is necessary to consult the experience of the past, may I ask your indulgence while I attempt in my first 10 minutes to summarize the history of the relations between government and business during the last 2,000 years? I would not suggest that history in a capsule is an adequate substitute for a full meal, but it may be of value as an appetizer, preparing the stomach, or the mind, for the tougher food that is to follow.

Rufus S. Tucker

As you all know, the Roman Republic, having conquered the greater part of the known world, was torn apart by a conflict between rich and poor, each the prey of ambitious leaders, and was finally united by Augustus in what is known to modern historians as the Roman Empire. But the Romans themselves thought that they were still living in a republic. The emperors preserved republican forms. Elections were held; laws had to be passed by the Senate; the emperor was in theory chosen by the Senate—the word "chosen" being a polite euphemism like the word "election" in Russia now. As emperor he was merely commander-in-chief of the army, but he was also usually the elected holder of some civilian office, it made no difference which one. For 300 years he was never called King outside of Egypt and never wore royal robes, but he was the boss nevertheless. Partly because of their belief in the value of uniformity and centralized direction by experts, and partly to strengthen their own power, the emperors controlled much of trade and industry. To maintain their popularity with the city mob which might otherwise back the Senate against them, they instituted great systems of public works and social benefits, which had to be paid for by taxing private industry. The rural population, who formed the bulk of the army, also had to be placated by attacks on big business. It was not necessary for new laws to be passed "telling them what to plant and when to reap" (to use Jefferson's words in describing what he feared would happen in this country of ours). In Roman times and throughout the Middle Ages the choice of crops was regulated by custom which no one dared to violate.

Results of Roman Planned Economy

What was the result of this imperial "planned economy," this system by which the political boss kept himself in power by gratifying the farmers and the city mobs at the expense of business? The population of Italy and Greece declined rapidly. After a generation the quality and quantity of Latin literature deteriorated markedly, according to all the experts in literary criticism. The quality of sculpture and handicrafts suffered in like manner. The character of the common people was weakened; perhaps the best evidence of this was in the change in military tactics which had to be based on defensive armor and mass formations instead of the flexible formations by which Scipio and Caesar had conquered all foes. The differences between rich and poor became greater and the middle class disappeared or became "reliefers" in the cities or serfs in the country. The civil service and the army came to consist largely of Germans and Orientals. Then the barbarians from the East moved in.

After a few centuries known as the Dark Ages, the medieval system of feudalism was set up in Western Europe. This system also was not well suited for business prosperity, but for two very unlike reasons. In the first place the central governments were not strong enough to maintain order, or to enforce contracts, nor wise enough to maintain a sound currency or even uniform standards of weight and measure; and the taxes they collected, though not high by modern standards, were frequently injurious to business. In the second place agriculture was controlled by custom, and business was controlled both by custom and by local and church laws. Interest, for example, was not merely kept to a low rate—it was forbidden altogether. Prices and wages were fixed. Many useful forms of business were despised; only soldiers and idle landowners were respected, and profits were considered immoral. This period was in modern terminology a long depression, occasionally intensified by plague and famines.

After the Reformation and the Renaissance many national governments became strong enough to introduce economic planning along modern lines — tariffs, subsidies, punitive taxes, tax-exemptions, licensed monopolies, government enterprises, public works, price-fixing, wage-fixing, bilateral trade, university-trained bureaucrats and all the rest—except that I have not come across a single instance of either government encouragement to monopolies of labor, or government-financed destruction of domestic crops in order to keep up the price of food.

This system was called Mercantilism, because it was supposed to

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*An address by Dr. Tucker at a dinner-forum of the Associate Members of the New School, New York City, Oct. 21, 1949.

Canadian Securities

By WILLIAM J. McKAY

It is gratifying to note that the Canadian Chamber of Commerce in a recent statement advocated the removal of foreign trade restrictions and the abolition of exchange controls. The Chamber further went on record to the effect that in its opinion, Canada as a relatively strong economic unit, might well show leadership in this respect.

This suggestion is by no means original and a close study of the situation leads inevitably to the conclusion that Canadian interests would best be served by courageous action in this direction. As frequently mentioned Canada's vital stake in the world's export markets is jeopardized by any measures that constrain multilateral trade, currency convertibility, and the free international flow of capital funds. The existence therefore of Canadian foreign trade restrictions and foreign exchange controls serve only to defeat what should be considered as primary objectives of Canadian economic policy.

These aims are also those of the International Monetary Fund, but membership obligations to this body would appear to preclude anything in the nature of a decision on the part of a member country to permit its currency to reach a level attained by the process of the free play of supply and demand. On the other hand the record clearly demonstrates the futility of attempting to arrive at effective exchange parities by the arbitrary methods that now meet with official approval. Under present conditions complete exchange freedom is clearly out of the question. On the other hand some departure from the current artificial approach to currency stability is strongly indicated.

As was truly stated during the course of the debates that preceded the resolutions evolved by the Canadian Chamber of Commerce, Canada had an unexcelled opportunity following the recent spate of currency devaluations "to give the world a splendid and needed example of faith and confidence." This could indeed have been achieved by the abandonment of exchange controls, the removal of import restrictions and the establishment of a single rate of exchange the level of which to be determined by the free flow of trade and capital transactions.

Although the last mentioned step would perhaps not be strictly in accordance with International Monetary Fund procedure, the elimination of multiple exchange rates and international trade restrictions would help to compensate for unorthodoxy in that respect. Furthermore it is now evident that the existence of rigid exchange controls over a long period has completely divorced from reality of parities of most of the world's currencies. As an alternative method to arbitrary fixing of parities is clearly essential, the Canadian dollar, as aptly pointed out by the Canadian Chamber of Commerce, could well serve as the experimental medium.

Canadian initiative in this direction would also be of inestimable benefit to domestic finances. Even an initial decline of the single exchange level to 15% or 20% would not constitute an economic disaster. In this event the deficit on U. S.-Canadian commercial account would be all the more rapidly offset by a stimulated influx of U. S. capital funds. As matters now stand current U. S. investment in Canadian oil securities, gold, titanium, iron and other natural resources in the Dominion merely serves to strengthen the Canadian free dollar. This movement of funds operates only to reduce the volume either of outstanding Canadian indebtedness to this country or the transfer of a Canadian investment from one U. S. account to another. On the rare occasions when the official and free dollars are at the same level, the feeding of official dollars into the free market tends to create an illusory appearance of strength of the official exchange reserves which normally reflect only the movement of funds on commercial account. The establishment of a single free rate of exchange, however, would ensure that the influx of U. S. investment funds would at all times serve to increase the official reserves. The lifting of exchange controls would also create still greater confidence in the Canadian dollar and thus give further stimulus to investment north of the border.

During the week the external section of the bond market was firm but inactive. The internals were a shade firmer in sympathy with the strength of the Canadian government bond market. The corporate-arbitrage rate was slightly weaker and free funds were also lower as a result of offering in connection with the November 1 bond redemption. Stocks were again higher with paper, base-metal, and Western oil issues in particular demand. There was a continued U. S. interest notably in Imperial Oil Royalites and Interprovincial Pipelines.

Brown & Co. Formed In Toronto

TORONTO, ONT., CANADA.—Harry Brown and C. A. Baldwin announce the formation of Brown & Co., 100 Adelaide Street, West, members of the Toronto Stock Exchange, to carry on a general stock brokerage business. Mr. Baldwin was formerly a partner of G. C. Williams & Co. and Vice-President of Williams Share Corporation Ltd. Mr. Brown was also with G. C. Williams & Co. in the unlisted department.

Tifft Bros. Adds

(Special to THE FINANCIAL CHRONICLE)

SPRINGFIELD, MASS.—Joseph J. Barry, Jr. has been added to the staff of Tifft Brothers, 1387 Main Street, members of the New York and Boston Stock Exchanges.

What's Ahead for Exports?

By JOHN LEE COULTER*
Consulting Economist, Washington, D. C.

Dr. Coulter reviews trends in U. S. foreign trade and analyzes problem of export surplus in last two decades. Says time has arrived for public appraisal of Government's policies of levying taxes and appropriating funds to support and promote exports, and, at the same time, increasing prices to consumer.

When books are balanced at the close of a given period of time there must necessarily be an exact equation between the two sides of the ledger even though either one or both sides contain "miscellaneous" or "unknown plus or minus items." This is as true in the case of international exchange as in the case of the annual fiscal statement of a government or financial statement of a corporation or individual.

Dr. John Lee Coulter

Since the turn of the century there has been a series of periods of extreme shifts in both the size and character of the two sides of the international exchange ledger as between the United States and various individual foreign countries as well as between the United States and all foreign countries combined.

Sometimes it appears that too much emphasis has been placed upon what is commonly referred to as a favorable or unfavorable trade balance, referring only to the difference between the dollar value of credits and debits created from the exportation and importation of commodities. So-called invisible items created by foreign travel, transportation charges, international insurance, commissions, gifts, immigrant remittances, earnings on foreign investments, movements of monetary metals and changes in international investments or obligations are frequently of an importance equal to the dollar value of international trade of commodities. At the present time the big balancing item centers around government grants and loans and the financing of foreign activities.

According to the first Balance of Payments Yearbook just issued by the International Monetary Fund (Washington, D. C., 1949, 383 pages), which presents a comprehensive review of international exchange problems, the United States a decade ago (in 1938) had a so-called favorable merchandise trade balance of $924 million, increased to $1,358 million when invisible credit and debit items are included. The record was brought into balance by capital and monetary gold movements which included imports of $1,799 of monetary gold.

In contrast, ten years later (in 1947) the so-called favorable merchandise trade balance had increased to $9,082 million. This was reduced to $8,897 million through invisible items including $1,851 million UNRRA and other government grants to foreign areas and a miscellaneous item of $1,004 million labeled "Errors and Omissions" found necessary to balance the international account. Thus, we were confronted with a $9,901 million "gap" in all current trade and invisible transactions combined.

Our world account was brought into balance through movement of capital and monetary gold—of which the gold item was $2,162 million. Private long-term capital assets increased this by $840 million, private short-term capital assets by $60 million, and "Official and Banking Institutions" long-term and short-term items combined by $6,839 million.

This then is the problem of the Foreign Exchange Gap. And the item of $9,082 million represents excess of exports over imports.

When the two sides of the foreign exchange ledger get substantially out of line with each other governments often find it necessary to step into the breach with many types of supervision, regulation or control of all the different elements involved—including trade and tariffs—in order to avoid extreme fluctuations in prices, currency values, gold and capital movements, etc.

The ECA Report

On Oct. 22, the Economic Cooperation Administration, which is responsible for the direction of the so-called Marshall Plan, published a massive 200-page economic statistical document on this subject prepared by a mission of Federal officials and ECA consultants headed by Wayne Chatfield Taylor, assistant to ECA Director Paul G. Hoffman. During the past six months this mission with a special staff has gone into every phase of the subject in European countries as well as at home. They have come to the conclusion that the present lack of balance in trade between Europe and the dollar area of the Western Hemisphere can be solved by the combined action of American and European governments and business interests.

The problem, as stated in their report, looks like this: "Other countries simply are not earning enough dollars to pay for what they import from us. They have a 'dollar shortage.' We have a vast export surplus which we maintain by subsidies at the taxpayers' expense."

The report says that we could continue the subsidies but that this would be an endless "policy of drift," undesirable, to say the least, and "no solution of the basic problem." We may all agree to this conclusion, but your present speaker would add that this would be one road to domestic, European and world chaos. Our own economy would be wrecked by the burdensome taxes or deficit financing, the inflated prices, the forced lowering of living standards, etc. European economy would be wrecked by the piling up of debt to us, the enforced closing down of their productive forces, the loss of their outside markets, the lowering of their living standards, etc. Outside world economy probably would boom temporarily until excess led to runaway inflation, followed by deflation, defalcation of debts, new forms of totalitarian state controls, communistic, socialistic, fascist, etc., and general world economic collapse. At least we can agree with the report that this is an endless policy of drift, undesirable to say the least—no solution to the basic problem.

The report then suggests that we might attempt to solve the problem by greatly expanding foreign investments, which is called a highly desirable measure. "However," they conclude in addition to other objections, "the gap is much too large to be closed by this method alone." We agree with that conclusion, but since the subject of investments is so intimately tied in with the discussion of the last speaker I shall not attempt to deal with it here.

The real purpose of this voluminous report is to lay the foundation for a compaign for a greatly accelerated volume of imports. The report says that we can close the gap "by stimulating an expansion of exports of goods and services from other countries to the United States, accompanied by an expansion, as far as feasible, of United States foreign investment." The report provides a partial list of 260 products that Europe was particularly equipped to manufacture, but on which the United States exacted tariff duties of 25% or more. Since the average hourly wage rate in manufacturing in Western Europe is currently reported to be the equivalent of 40 cents per hour it is not difficult to visualize the character of the suggested solution.

You will see from the program that the next speaker is scheduled to deal with the subject, "The Import Problem as Typified by the Mining Industry." In addition, permit me to call special attention to a new publication (No. 125) just released by the Tariff League entitled "What Yardstick for Foreign Trade?" In this bulletin the concluding section is under the sub-title "Imports are the True Yardstick." Time does not permit me to further elaborate on the character of the so-called favorable-trade-balance or the size of the dollar gap from the standpoint of increasing imports to a level with exports.

Narrowing the Gap

It seems desirable in order to most completely cover the subject for me to devote myself for the rest of the period assigned to me to the subject of "narrowing the gap by government attention to the problem of so-called export-trade-balances."

The more than 200-page report of the ECA above referred to examines the possibility of eliminating the foreign trade gap by putting an end to these subsidies—ending the Marshall Plan and other foreign-aid projects—and bringing world trade into balance "at a very low level." They conclude (1) that the effect on our export industries would be calamitous, (2) that Europe would be lacking the support that gave "men food, hope, tools," (3) that kept free institutions alive, (4) that prevented chaos.

Had this report been written in October, 1945, all could agree that aid from us in the form of food, tools, hope, etc., had merit, even if it did result in an unbalanced international exchange ledger and a very undesirable, albeit favorable, trade balance. But this is October, 1949. How long is this dangerous excess of exports to be continued with all of its abuses—leading to inflation, currency devaluations, subsidies, and all manner of state substitutes for the basic elements of free competitive private enterprise? How long shall we delay recognition of the natural economic laws and the restoration of democracy in government in place of communism, socialism, fascism and bureaucracy. Must a semblance of war be continued with deficit spending, increasing indebtedness, burdensome taxation, and other attendant miseries into the indefi-

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*An address by Dr. Coulter at the Annual Meeting of the Tariff League, New York City, Oct. 26, 1949.

Building Anew U. S.-German Commerce

By GEORGE F. BAUER*
George F. Bauer Associates

International trade leader urges negotiation of commercial treaty with Germany and removal of cumbersome restrictions on travel and trade between the two countries. Advocates use of blocked D-marks for business transactions and cooperation for ultimate establishment of gold standard. Wants "abundance" instead of austerity policy.

Building commerce anew between the United States and Germany presupposes knowledge of fundamentals of what makes for sound trade between any two countries.

There are advocates of austerity programs of world trade and there are advocates of abundance programs of world trade.


George F. Bauer

The "austerity" addicts believe that the volume of trade cannot be expanded by correct programs and policies and that the task of political leaders is to obtain a slice of it for their particular country. The pie of world trade is kept small and naturally the slice for each country is similarly suited only for a "starvation diet."

The "abundance" advocates believe that with proper policies more and more goods of all kinds and from all nations can be increasingly brought within buying reach of more people everywhere.

It was more important in former days that the world produced 6,000,000 automobiles a year, with the United States providing 4,000,000 of them, or 66% of them, than for the world, including England, Germany, France, Italy and Czechoslovakia, to produce only 3,500,000 automobiles and the United States 2,000,000 or 80%. The former is an "abundance" world trade program and the latter, while more advantageous percentagewise for the U. S., was an "austerity" program. It is better to work for a bigger pie for all on the assumption that the slices going to each country will represent banquets and not just morsels.

What are some of the essentials that make for an "abundance" program of world trade and how can the principles be applied in building commerce anew between the United States and Germany?

The first stipulation is that the ultimate consumer everywhere determines whether there shall be large-scale purchases of goods and services and consequently large-scale production and distribution and employment everywhere.

In the United States we formerly figured there were 40,000,000 Americans with incomes of $2,000 or less a year; they probably receive $3,000 or less of 50-cent buying power dollars now.

These $40,000,000 always desire goods and services and will purchase them if they are brought within their buying reach. That is to say, within the means provided by pocketbooks of $3,000 a year. Throughout the world there are similar relationships between the prices of goods and services and the abilities of people to afford them.

Every action to reduce waste or unnecessary labor tends to bring down costs of goods and services and thereby bring them more within buying reach of more people. Every time an article, as the result of intelligent cooperation between management and labor and government, can be reduced in price by $1.00, it is made more easily accessible for purchase by the people. In foreign trade, the saving of $1.00 in the United States may become $1.50 or $2.00 as insurance, tariffs, taxes are frequently lowered as result of the initial saving in the country of origin.

What are some of the situations existing today that put German goods and services beyond the buying reach of Americans and vice versa of United States goods and services beyond the buying reach of Germans?

An important obstacle in bringing goods within buying reach of more people is that centering on the cost of complying with a myriad of forms, export and import permits, exchange controls, quotas, stipulations, and consular documentations. Someone has to do the work of filling in forms and the cost of this work, which adds nothing to the quality or quantity of merchandise, has to be passed on to the consumer and he may find that his means of bridging it are exhausted.

To make for an "abundance" of commerce between the United States and Germany, an attempt should promptly be made to simplify or "purge" regulations and controls over trade which, because of cost of labor in complying with them, put goods outside the buying reach of many people.

Some laudable progress has been made in Germany on that score. Exchange directives still need to be removed. In the United States compliance with export control permits is costly and needs to be abolished. The economies effected by such moves could be passed on to consumers in both countries and stimulate "abundance" type of commerce.

Potential investments are kept dormant in Germany today. Military regulations still prohibit investments by citizens of the United States. An exception is where blocked funds of foreigners may be put into certain governmental securities in Germany with a return of 5½%.

What is needed, however, is not forced utilization of these private resources in governmental undertakings but rather actions allowing use of these dormant funds for advancement of commercial enterprises and trade. A proper step would be to allow former Germans, now American citizens or intending to become American citizens, and having blocked marks, to use up to 80% of their values if accompanied by 20% in U. S. dollars to purchase goods in Germany to export to any country where the goods can be put to good use. Similarly, there should be an incentive for holders of such blocked marks to invest them in the reconstruction of German industries and enterprises of all kinds.

The stimulus to "natural" trade from these measures should be such as to make possible more efficient production and distribution methods and help bring more German goods within purchasing reach of more people everywhere.

By the same token that encouraged investments are helpful in rebuilding commerce and general well-being, the dismantling of plants without attempts to convert them to peacetime use is investment in reverse.

Certainty of calculations is a necessity if commerce is to be carried on in the most economical manner. The cost of occupation by the Allied Powers needs to be put on a basis which will show up with exactness in price of goods imported to or exported from Germany.

In the occupation of certain countries in the past it was customary to determine what percentage of revenue should go to supervisory forces for services of a military or civil type. Through such arrangement, vagueness is reduced and definite quotation can be calculated with accuracy on all goods for export from Germany or for import and local sales to the people of that country. Inclusion of this cost factor, while making for higher prices of goods would have nevertheless an advantage in revealing an important item that needs to be considered by Germans in making definite quotations on goods to be sold abroad or within Germany.

The purpose of the Reciprocal Trade Agreements Act was to make for reduction in barriers to two-way or several-way commerce. Due to the laudable efforts of General Clay, great progress was made for a basis for mutually attractive trade.

Travel, however, is also a phase of two-way trade. Visitors going from the United States to Germany spend dollars which can be used just as well as if they were obtained from exports of German goods to the United States.

To become helpful in rebuilding commerce anew it is vital that the intricate regulations and limits on stays be modified. In doing that Germany will be given a self-respecting source to obtain foreign exchange with which to purchase products it needs from abroad for rebuilding of its industries, or to care for needs of its population.

A sound money standard by both the United States and Germany is needed for a proper conduct of commerce.

Before World War I, both the dollar and the mark were on a gold-coin standard. This meant that, if so desired, you could obtain for a non-gold dollar on demand 23.22 grains of fine gold, and for 5 marks 27.656 grains of fine gold. There was no trouble in those days in exchanging the dollar for marks, and vice versa because both had a common denominator—their titles to definite amounts of gold.

Today the dollar needs to be again convertible on demand, not at 23.22 grains—too much economic wrong has been committed to accomplish that—but at 13.714 grains, which reduction is accounted for by our devaluation.

Similarly, five marks cannot be a title to 27.656 grains as in the past, but an earnest effort could be made to have five of the present D-marks represent a claim to 16.30 grains of fine gold or to an equivalent in foreign exchange comparable to that quantity of gold.

To come back on a gold standard, Germany will need economic production in order that she may be entitled to credits in sound currencies of other countries. It does not mean that in the very beginning she needs a huge supply of gold. If she builds up by industriousness a right to sound money credits, she will be providing herself in part with the equivalent of a gold reserve.

It was good news to read the news that three-power action may soon be taken to end the state of war.

The way should consequently be cleared for a treaty of amity and commerce between the United States and Germany. The first treaty of this kind apparently was between the Free City of Bremen and this country. In 1924, the Senate Foreign Relations had such a treaty under advisement. The outlook for it was rather dark, and yet within a few weeks it was favorably acted upon.

Is it not a good time to suggest that a treaty of amity and commerce be given consideration again. It would assure equitable treatment to businessmen going from the United States or coming from Germany to our country for the purpose of rebuilding commerce between the two countries on an attractive scale.

In summary, it does seem there are a few definite undertakings with which the United States-German Chamber of Commerce can concern itself in a specific program for rebuilding commerce anew between the United States and Germany.

*A talk by Mr. Bauer at annual meeting of the United States-German Chamber of Commerce, New York City, Oct. 26, 1949.

Public Utility Securities

By OWEN ELY

Central & South West

Central & South West controls Public Service of Oklahoma, Central Power & Light, Southwestern Gas & Electric, and West Texas Utilities, these operating companies comprising a fully interconnected and integrated system. Some 560,000 customers located in 748 communities and adjacent rural areas are served, in Texas, Oklahoma, Arkansas and Louisiana. Principal cities include Tulsa and Bartlesville in Oklahoma, Corpus Christi and Laredo in Texas, Shreveport in Louisiana, and Texarkana in Texas and Arkansas.

While oil and natural gas are outstanding industries, with roughly one-fourth of the nation's gas reserves located in the System area, farming is also important. Agricultural products include cotton, wheat, corn, rice, cattle, sheep and goats; also citrus fruits and vegetables along the Rio Grande and in the famous "winter garden" section of Texas. Miscellaneous natural resources include gypsum, sulphur, coal, salt and timber. The chemical industry, which is making increased use of oil and natural gas, is gaining in importance. Many well-known industrial names such as Dupont, Aluminum Company of America, Celanese and Corn Products Refining are now represented in this area. Manufacturing industries include the processing of oil, natural gas products, chemicals, carbon black, zinc, glass, cottonseed products, building stone, ceramic materials, cement, clay tile, brick, and canned fruit and vegetables. The rapid wartime rate of expansion in population and industry has been well sustained in the postwar period.

To meet this growth the system has been expanding rapidly, and will continue to push its construction program. During the period Sept. 1, 1949, to Dec. 31, 1951, Central & South West expects to spend about $69 million, which will include the installation of 146,000 additional KW. System capacity now totals a little under 600,000 KW of which nearly one-third was installed in 1947-49. The system also buys about 34,000 KW.

Required funds for the construction program will probably be obtained about as follows: $9.7 million was realized from securities sold by two subsidiaries in June 1949; over $8 million may be realized from the current sale of common stock by the parent company; $5.5 million from the pending sale of Central Power & Light debentures; and $12 million will be obtained from sale of additional senior securities in 1950-51. Remaining funds can be obtained through depreciation and amortization accruals, plus retained earnings, it is estimated.

About 94% of system revenues are from sale of electricity, 5% from ice and 1% from water. The ice business is normally profitable, largely serving the food packers along the Rio Grande, and the SEC has not required its disposal. Electric revenues are well-balanced with residential and rural revenues 35%, commercial 29%, industrial 26% and miscellaneous 10%. Because of the large area served and the availability of cheap natural gas (which makes it more difficult to promote use of electricity for home appliances) the average residential rate is slightly under 4¢ and annual usage is 1,213 KW. Maintenance and depreciation charges are over 21% of revenues after allowing for purchased power and gas—an unusually high proportion—and depreciation reserve is over 18% of plant account. Plant has been written down to original cost with the exception of a very small amount which is being amortized.

The system has been earning slightly over 7% on the estimated rate base, but the Texas State law sets up fair return as "not to exceed 8%" on fair value. Regulation is by municipalities, there being no state commission with jurisdiction. There are of course commissions in Oklahoma, Louisiana and Arkansas, but regulation in these states is not considered onerous.

Central & South West emerged from the break-up of the Middle West system in 1947. Its capitalization now consists of $3.8 million serial notes and 7,985,173 shares of common stock including the 725,507 shares which are currently being offered to stockholders for subscription on a 1-for-10 basis. On a pro forma basis system capital structure is estimated to be 53% debt, 17% preferred stock and 30% common stock equity.

The common stock, which sold as low as 8⅝ last year, recently advanced to 13⅛ and is currently around 12¾. Based on the recently increased dividend rate of 90¢ the current yield is 7.1%. Share earnings on a pro forma basis for the 12 months ended Aug. 31, 1949, approximated $1.32 a share so that the new dividend rate means a payout of 68%. Share earnings have continued to increase at the rate of about 10 or 12% per annum in the past two years, but this gain has been just about offset by the two issues of common stock on a 1-for-10 basis. It now appears unlikely that more common stock will have to be issued, at least during 1950-51, so that anticipated further gains in share earnings may be retainable.

Selling American Goods Abroad in 1950

By DEMSTER McINTOSH*
President, Philco International Corporation

U. S. exporter, discussing currency devaluation effects, foresees greater difficulties in selling American goods abroad in 1950 than in current or past years. Says there is need of more initiative, aggressiveness and resourcefulness on part of American exporters and urges: (1) study of individual export markets; (2) offer products with specifications required in foreign markets; and (3) intensive selling through properly organized distribution.

Selling American goods abroad and, in fact, the general handling of export business has been rather difficult for some time past. It will be more difficult in 1950. The conditions which have made export difficult during the past year; import restrictions or prohibition of imports, and the shortage of dollars on the part of most of our foreign customers, will continue in 1950 and perhaps even increase. Most foreign countries are not going to give up over-night their trend towards Nationalism and the policy of development of local industries. Also they are not going to immediately find new sources of dollars and, therefore, there will probably not be, in the immediate future, any large-scale lifting of the import barriers now set up against American products, particularly American consumer goods.

Dempster McIntosh

In September another complication was added to the many we were already facing, and that is the devaluation of sterling, followed shortly afterwards by the devaluation of most other currencies with the exception of the American dollar, the Swiss franc and the currencies of some of the South American countries. It is to be expected that some of the countries which have not yet devalued will devalue to at least some extent in the near future. Many currencies have been devalued to the same extent as sterling, or approximately 30%, where others, such as the Belgian franc, have devalued only 10%—with Argentine devaluation to the extent of approximately 40%.

Devaluation Effects

The devaluation of the British pound down to $2.80 in relation to the dollar has undoubtedly already substantially helped British exports, and indeed it is to be hoped, from the overall point of view, that this increase in British exports will continue; but it is my feeling that the effect of devaluation, that is the long-time effect, will not be as great as has perhaps been generally anticipated. I believe that before very long price increases in many types of British goods will offset at least half of the 30% price reduction gained through devaluation. Some British manufacturers in fact waited only a few days after devaluation before increasing their prices—in some cases by as much as 15%. Other British manufacturers have already, or will shortly follow suit in my opinion. Some of the price increases which have already been made in British goods were the result merely of the desire of the individual manufacturers to capitalize upon the opportunity of securing higher prices and therefore better profits. However, labor costs in England will undoubtedly increase in the future in spite of all efforts to hold them down and, of course, the cost to British manufacturers of imported raw materials have already increased, and these factors will in themselves lead to further increases in the sales prices of British goods.

Another way of looking at this situation is that many British goods have been over-priced. With devaluation they will now become more competitive, but any large increases in price will again make them non-competitive in the world markets.

Another point to consider in connection with the competition of British goods with American goods in the export markets is that the prices of many types of American products can be expected to come down somewhat during the next year. With American prices coming down and British prices going up, I feel that eventually there will not be very much left of the present 30% differential. Still another point is that many British export products are not in very strong direct competition with American products in most of the export markets. Even British motor car exports consist, to a considerable extent, of small cars of types not produced by American car manufacturers.

However, although the factors mentioned will have considerable effect on the situation, further increases in British exports can probably be expected and therefore this gives to American manufacturers who have British plants, the opportunity of further developing export sales for their British-made products. In my own company we are working along this line, but a large percentage of the export sales of our own British products are to countries into which we cannot ship our American products due to import or exchange restrictions. In other words, in our case—and I hope other American manufacturers will adopt the same policy, we do not believe in increasing export sales of our British-made products at the cost of sales of our American-made products, but rather we follow the policy of shipping our British products to those countries for which our British models are especially suited or into which our American products cannot enter.

Tasks of U. S. Exporters

We have talked about the present difficulties in selling American products abroad. These difficulties will undoubtedly continue, but in spite of such difficulties I firmly believe that it is still possible for the individual American manufacturer or exporter through initiative, aggressiveness, resourcefulness, hard work, and the employment of competent personnel with export know-how, to increase their own particular export sales or at least to hold up their own sales volume in spite of a decline in total American exports. We cannot be ostrich-like, bury our heads in the sands and ignore the restrictions and difficulties standing in the way of our export sales, but my feeling is that the individual export manager, instead of worrying or thinking too much about a general decline in American exports, should rather devote his time and thoughts and energies to securing as large a share as possible of those exports for his own particular company. How can this be done?

(1) Study the individual export markets, analyzing the types and specifications of products required, competition being faced from locally made and imported products—and this varies in each market — distributing methods being followed by your most successful competitors, how your own products are regarded by users or consumers in the market, and finally if your products are such as to require service, are your distributors and dealers organized to give satisfactory service. Of course, if the potential market justifies it, this study of the market should be made on the ground by your own men.

(2) Offer products with specifications to meet the requirements of the various foreign markets. In some export markets standard types of American products built for the American domestic market are entirely suitable but there are many other export markets in which consumer tastes, local conditions, including purchasing power of the people, customs, climate, electrical current characteristics and other factors require products of different specifications. The American manufacturer should not try to force the sale of his standard types of domestic products in such markets—or, putting it another way, if he does so he certainly cannot expect to do a large volume of business or to meet competition from other manufacturers who produce products designed to meet local market requirements.

(3) Sell intensively through properly organized distribution. We are sometimes amused at a foreign manufacturer endeavoring to sell his goods in America confining his sales to a wholesale organization or even to a few retail organizations in New York, and feeling that he has, in so doing, thoroughly covered the entire American market of 150,000,000 people. We know that to properly cover the American market distribution should be organized in all of the leading cities throughout this entire country. However, there are American manufacturers, even large manufacturers, who seem to feel they are covering all of Brazil by selling to one outlet—perhaps even a retail outlet—in Rio, or that all the Cuban market is in the city of Havana or the Colombian market is confined to the city of Bogota. Obviously, to secure intensive distribution, particularly for consumer products, the foreign markets should be broken down into distributing areas just as an American manufacturer doing a nationwide business in the United States breaks down the American market.

A Summary

To sum up, it seems to me the individual export manager should work to secure the largest possible share of the total market for his types of products; first, by intensively studying the requirements of each of the export markets; secondly, by arranging for his factory to produce products of the types and specifications required—and this will not be easy, requiring the full cooperation of his factory management and probably a long period of time; and thirdly, by organizing intensive distribution. Since such a small number of American or foreign manufacturers go after export business in this manner, the manufacturer who is prepared and organized to do what is required will fully reap the rewards and actually secure a large percentage of the available business.

At the present time we have a very limited number of open unrestricted markets available to us for most types of American products. These markets are principally Cuba, Puerto Rico, the Dominican Republic, Panama, Guatemala, Venezuela, the Philippines, Hong Kong, Syria and Lebanon, Belgium and Switzerland. In general, the export manager should concentrate the large part of his activities in those markets. Competition is keen, especially in these markets, but—let me repeat—the manufacturer who really goes after the business, who produces the right kind of product at the right price, and who sells it intensively through the proper channels, has a big advantage over the great majority of manufacturers handling their export sales in a more or less casual hit-or-miss fashion.

In conclusion, total American exports, with the possible exception of goods shipped under the Marshall Plan, will probably show some decline during 1950 as compared with 1949. That is unfortunate, but is no justification for an American manufacturer to give up his export business or to diminish his export sales activities or his export advertising. Rather, the situation calls for greater sales efforts, greater ingenuity in developing ways to secure business, and more effective advertising and sales promotion activities. 1950 will present a real test and a real challenge to the American export manager who will need more than ever the full support of his factory management to be successful under the conditions we will be facing during the coming year. Export sales prospects are not good for the opportunist fair-weather manufacturer who is interested only in easy business and is not prepared to give his export manager or his export division adequate support; but to the American manufacturer who is organized to go after it, who is prepared to spend the time and money to study the foreign markets and then to produce the types of products required, and finally to set up proper sales, service and shipping facilities, there will be a good export market in 1950 and also in the years to come.

*An address by Mr. McIntosh at the Merchandising & Advertising Session of the 36th National Foreign Trade Convention, New York City, Nov. 1, 1949.

Railroad Securities

Chicago, Rock Island & Pacific; Illinois Central and Alleghany Corp.

Chicago, Rock Island & Pacific is taking what is expected to be the initial step in a comprehensive debt refunding program. The first mortgage 4s, 1994, will be redeemed on their next interest date, Jan. 1, 1950. These bonds are currently outstanding at slightly less than $26 million. Interstate Commerce Commission authority to issue a $25,760,000 promissory note to provide funds for the redemption has already been granted. This note, however, will merely represent a stop-gap arrangement. Later it is expected that a new long-term (perhaps 30 years) first mortgage bond will be offered for competitive bidding.

When the new long-term bond is offered, it is generally expected that it will do more than merely provide for the promissory note. It is expected to be for $50 to $60 million. This larger amount would provide funds sufficient to retire part or all of the outstanding income 4½s, 2019. These bonds, outstanding at roundly $34 million, are callable only on interest dates and interest is payable only once a year, on April 1. It is, of course, impossible at this time to say what interest rate a new first mortgage bond of $60 million would have to carry. It is the opinion of many rail analysts, however, that the whole operation could be done without increasing fixed charges much, if any, above the $2.3 million originally provided for in the ICC reorganization plan.

If the full job can be accomplished on any such basis, the road would still be obligated for only very modest annual fixed obligations and the entire $3.3 million of original contingent interest would be eliminated. As the reorganization was initially set up, it was generally considered more drastic than was necessary. With the expected new steps the debt structure should be well nigh depression proof. In particular, the status of the 705,382 shares of $5 preferred, with annual dividend requirements of $3,526,910, will be very materially strengthened. Except for the factor of Federal income taxes, this stock would be just as close to earnings as the income bonds were when the plan was set up.

* * *

Another important financial development of the recent past was with respect to the bond exchange offer made to holders of some of the early Illinois Central maturities. As provided in the plan, the offer was extended to Oct. 28 and was then declared operative. At the time of this writing no official announcement has been made as to the exact number of bonds that were deposited. There have been widespread reports, however, that somewhat more than 60% of the affected bonds were deposited for exchange into the longer maturities.

There were $52,201,000 par value of old bonds affected by the exchange offer. If it is true that some 60% of these were deposited it means that the total of 1950-1955 maturities, exclusive of equipment trust serials, has been reduced to moderately below $50 million. It is obvious that the company would not be strained by meeting any such obligations with cash in the next six years even if no further steps were to be taken to refund a part of this balance. As of July 31 the company showed cash and equivalent of more than $66 million and a net working capital (including liability for taxes still in dispute) of $43,415,000. Finances should be further strengthened by subsequent earnings and by settlement of the tax dispute.

* * *

Alleghany Corporation has again been in the news in the recent past, continuing its program of reducing its investments in the rail field. Following expiration of its exchange offer to preferred stockholders the balance of its holdings of Chicago, Rock Island & Pacific was sold to a group of investors. Of current interest was the completion yesterday, after the close of the market, of a secondary offering of 100,000 shares of C. & O. common stock at $27.75 per share less a concession of $1 per share to NASD members.

No Antagonism Between Federal And Mutual Savings Institutions

By WILLIAM K. DIVERS*

Chairman, Federal Home Loan Bank Board

Mr. Divers, in addressing delegates of New York mutual savings banks, describes operations and functions of the Federal Home Loan Bank System. Contends there is no basic competition between Federal savings institutions and mutual savings banks, but both are partners in educating public on fruits of regular savings. Says aim should be to fight monopoly and those who would impose rigid controls on free competition of our financial institutions.

I speak to you as Chairman of the Home Loan Bank Board, not as a representative of the savings and loan associations because, of course, our Board does not represent the savings and loan business, but rather the interest of the public in the administration of our various activities. Although we in no way represent or purport to speak for savings and loan management, I know I speak for the other members of the Board, as well as myself, when I mention the high regard we have for the great majority of the members of that business, including the 50,000 directors of those mutual institutions.

William K. Divers

This morning I wish to speak briefly on two principal subjects: First, the Federal Home Loan Bank System, and, second, the many common interests of the savings banks and the savings and loan type of financial institution. Before I discuss these two subjects, however, I would like to mention several other activities of the Home Loan Bank Board.

We have under our jurisdiction the liquidation of the Home Owners' Loan Corporation. In the past fiscal year we have closed out 77,000 accounts and reduced the assets by $105,000,000. In the course of the year, we have moved from the red ink into the black ink, earnings having absorbed the losses of the 30's and the early 40's. The proceeds of liquidation are being used to pay off outstanding loans from the United States Treasury, and unless there is a very substantial change in economic conditions, it appears that we will be able to sell the remaining assets by 1951. We expect, then, to pay off the Home Owners' Loan Corporation's remaining debt to the Treasury, return in full the $200,000,000 of capital stock, pay all administrative costs and return several millions in addition to the Treasury. This great venture of the Government, which gave a million families a chance to save their home, will end on a happy note, and will serve as the greatest single demonstration of the devotion of the American people to home-ownership.

Another duty of the Home Loan Bank Board is the chartering, regulation and supervision of Federal savings and loan associations. Coming from an area in which savings institutions are a notable tradition, you may not fully appreciate the need for national charters for savings and loan associations, but there are large parts of the South, Midwest, Southwest and West where such institutions are essential to the development of thrift and the provision of funds for home-ownership at a reasonable cost. Including the 840 institutions which have converted from State to Federal charter, there are now some 1,500 Federal associations holding total assets approaching $7 billion. The growth of such associations in the short space of 16 years alone attests to the need of the public for additional and improved facilities of the savings and loan type.

We have recently promulgated new regulations and a new charter for Federal associations. During the course of the consideration of the changes we proposed we had several conferences with representatives of the National Association of Mutual Savings Banks, including Earl D. Schwulst and E. Henry Powell. We have a sincere respect for members of the Association and their officers. We listened patiently to their opinions, and, to be quite frank, we disagreed with most of their views.

A Better Understanding Desired

Out of that discussion, however, I feel that there did develop a mutual desire for a better understanding and a more frequent exchange of views. Without going into any detailed discussion of the new charter or regulations, I think it is sufficient to say that in our opinion they in no way change the basic powers of Federal associations or their methods of operation, but constitute instead a recodification, modernization and simplification which was necessary after 15 years of experience and operation.

Our Board also acts as the Board of Trustees of the Federal Savings and Loan Insurance Corporation, which, as you know, insures the safety of investments up to $5,000 in all Federal savings and loan associations and in such State-chartered savings and loan associations as apply and qualify for admission. There have been no claims against the insurance fund for the past five years, and it has built up substantial reserves.

Now, a few words about the Federal Home Loan Bank System. We think of the System as a unit composed of the Board, the 11 regional Federal Home Loan Banks and the 3,828 members, including 27 mutual savings banks and nine insurance companies.

The System was created by Congress in 1932 and was a direct outgrowth of a conference on home-building and home-ownership called by President Hoover in the previous year. Congress created the System to serve as a reserve credit pool for institutions engaged in accumulating savings and investing the funds in mortgages on homes. It sought to provide greater liquidity for home mortgages by authorizing them to be used as collateral for borrowings from the Federal Home Loan Banks.

Since their creation, the Home Loan Banks have advanced a total of over $2,800 million to their member institutions, of which about $340,000,000 is now outstanding. No losses have been sustained.

Congress also foresaw the possibility of using the System to transmit surplus lending funds from some parts of the country to others where an active demand existed. Congress specifically authorized loans for two purposes: First, to provide needed liquidity to meet unusual withdrawals, and, second, to provide additional funds for lending on home mortgages. Some bankers look with horror upon the latter type of loan and call it "pyramiding." Whether they approve it or not, it was specifically authorized by Congress and we have to administer the law that way. Frankly, on this point I like the views of Congress better than those of the bankers.

As a matter of actual record, loans from the district Home Loan Banks to their member institutions have always been small in relation to total member resources. Although some of the institutions have made more use of Home Loan Bank funds than the average, at no time have outstanding loans to members as a whole ever exceeded 5% of the combined resources of the members.

Should Uphold Private Enterprise

If we are to provide the funds with which the people of America can own good homes at reasonable cost, we should not frown upon a private enterprise method which, as always, involves some risk. We could all sit back and refuse to make loans, but the result could be that public funds would be diverted into construction, and our investors' funds would be placed in government obligations the proceeds of which would be used for housing. All the functions of the Home Loan Bank Board are related to the expansion of thrift and sound home-ownership. The members of your organization are dedicated to thrift and home-ownership likewise, although your investments are not so heavily concentrated in home mortgages as is the case with savings and loan associations.

Under the circumstances, with our mutuality of interests, or I might say identity of interests, we cannot permit ourselves to be distracted by arguments over minor competitive matters. Rather, we should join hands against our real competitors, the people who discount the benefits of savings, the people who sneer at thrift, the people who, consciously or unconsciously, are chipping away the cornerstone of industry and thrift which have made this country what it is.

I am not here to sell the Bank System to you or to urge you to become members. Henry Powell, in his recent address before the Massachusetts Savings Banks, has analyzed the pros and cons clearly and fairly. I can say, on behalf of the Board, that the door is open and you are welcome to membership if you decide to apply.

This is Sunday morning. Most of us have just completed Sunday morning worship. It is an ideal time to recall the teachings of Christ according to St. Matthew, Chapter V, Verses 1-12, when He said: "Blessed are the peacemakers: for they shall be called the children of God." At no time have we publicly raised any question about the safety or soundness of any type of financial institution or made any public statements about the propriety of any of their actions.

We believe that all financial institutions, requiring the public confidence as they do, must join in working to maintain that confidence, and if action of any kind is necesary to merit that confidence, the action should be discussed in private. Any doubt raised on the subject of management or insurance will not be carefully analyzed by the public, but will result only in a decrease of confidence in all types of financial institutions. So I urge you to join with us in discussing any differences privately and confining our public remarks to favorable ones, even about competitors for the savings dollar. I have tried to point out that our real competitors are not other financial institutions, but rather are those who urge spending instead of reasonable saving. I have often publicly urged all types of financial institutions to join in a campaign to impress the American public with the important part played by our financial institutions in financing an economy which provides the highest standard of living in the world, and I repeat that plea to you now.

Like yourselves, our Board believes firmly in competition—fair and intelligent competition. That is what we need and should welcome and respect. It is the only system under which our financial institutions can thrive.

What we really should fight—in my opinion—is monopoly and those who would impose rigid controls on the free operation of financial institutions.

*An address by Mr. Divers at the 56th Annual Meeting of the Savings Banks Association of the State of New York, on board the S. S. Nieuw Amsterdam, Oct. 23, 1949.

World Bank's Profit Increases

In quarter ended Sept. 30, institution earned $3,162,980 compared with $2,317,723 in same period a year ago. Member nations that have depreciated their currency, asked to contribute approximately $144 million more to Bank's capital.

The International Bank for Reconstruction and Development on Oct. 31 reported a net profit of $3,162,980 for the three months ended Sept. 30, 1949, the first quarter of the Bank's fiscal year. This compared with a net profit of $2,317,723 for the first quarter of the preceding fiscal year.

Gross income for the quarter was $7,315 697 as compared with $6,292,023 a year ago. In accordance with its Articles of Agreement the Bank allocated $1,335,594 to a Special Reserve. This compared with $1,206,311 in the same period a year ago. Administrative expenses totalled $1,104,863 as compared with $1,055,765. Interest payable on bonds of $1,712,224 was the same in both periods.

The net profit for the period brought the total net excess of income over expenses since the Bank began operations to $16,804,074, exclusive of $9,409,734 accumulated in the Special Reserve. During the quarter the Bank approved five loans which increased total loan commitments from $650,100,000 to $726,600,000. The loans were: Two to India totalling $44,000,000; $15,000,000 to the Herstelbank in the Netherlands; $12,500 000 to Finland; and $5,000,000 to Colombia.

Disbursements on loans during the quarter amounted to $15,149,903, making a total of loan disbursements to Sept. 30, 1949, of $541,440,917. There remained $136,159,083 to be disbursed on loans then in effect.

During the quarter Denmark became the fourth country to make available to the Bank for lending purposes a part of its 18% currency subscription. Denmark made the equivalent of $125,000 in Danish kroner available to the Bank. Other countries which have made a part of their 18% subscription available for lending are Canada, Belgium, and the United Kingdom. In addition the United States has authorized the loaning of the full amount of its 18% currency subscription.

Concerning Maintenance of Currency Values

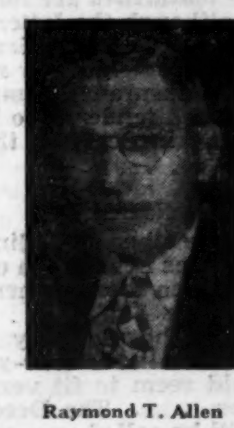
All subscriptions to the capital stock of the International Bank for Reconstruction and Development are expressed in terms of United States dollars of the weight and fineness in effect on July 1, 1944. At present, the capital subscriptions of the 48 members of the Bank total the equivalent of $8,348,500,000. Of such subscriptions 18% has been paid in the currencies of the respective members. This 18% portion of the member's capital subscriptions totals the equivalent of $1,502,730,000.

Whenever the par value of a member's currency is reduced, or whenever the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent within that member's territories, the Articles of Agreement of the Bank contain provisions which require such member to pay to the Bank, within a reasonable time, an additional amount of its 18% currency, sufficient to maintain the value, as of the time of initial subscription, of the amount of such currency held by the Bank.

Thirteen members of the Bank have recently reduced the par values of their currencies with the approval of the International Monetary Fund. Since under the Articles of Agreement those members are automatically obligated to make additional payments to the Bank within a reasonable time, the amount so payable, the equivalent of $144,429,041, is shown as a receivable on the Bank's Sept. 30 balance sheet. This figure does not include amounts which the Bank would be entitled to claim from other members because of depreciation of the foreign exchange value of their currencies.

Raymond Allen With H. A. Riecke & Co.

PHILADELPHIA, PA.—Raymond T. Allen, formerly Manager of the Trading Department of



Raymond T. Allen

Hecker & Co., Philadelphia, is now associated with H. A. Riecke & Co., Inc., 1528 Walnut Street, members of Philadelphia-Baltimore Stock Exchange.

NYSE Nominating Com. Elects C. W. Bartow

Clarence W. Bartow, partner in Drexel & Co., has been elected a member of the Nominating Committee of the New York Stock Exchange, to fill the vacancy caused by the resignation of Joseph W. Dixon.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Refunding of maturing obligations within the market itself, along with some long postponed income buying, has given a buoyant-to-firm tone to the government market. . . . It did not take too much volume to break the market out of its inactive restricted range on the up side because the quiet, selective acquisitions of investors had cut into the floating supply of Treasury securities. . . . It seems as though the issues to be offered in the year-end refunding are now pretty well set in the minds of most investors, and as a result of this they are making purchases of outstanding securities, in order to round out their programs. . . .

The partially-exempts have been the market leaders, especially the 2¾% due 1960/65. . . . There are reports of good-sized orders for this bond in the market. . . . The 2⅞s have also been in for important buying as have been the other higher-income tax-sheltered issues. . . . The longer taxables have likewise been in demand, although there has been considerable switching between these issues themselves as well as between them and the partials. . . . The demand for the tap bonds has broadened with large amounts of these securities being taken on by the savings institutions. . . .

LONG 2½s HOLD SPOTLIGHT

According to reports, substantial amounts of the 2½s due 9/15/67-72 are being turned over, despite the comparative inactivity of the government market. . . . The fairly even balance between sellers and buyers has kept quotations of this issue from getting out of line in either direction. . . . Commercial banks, as would be expected, are the main buyers, but in some instances they have also been sellers, largely for the purpose of year-end adjustments. . . . The remainder of the selling has come in not too limited amounts from small non-bank holders who are using the proceeds to buy principally the 1952 and 1953 eligible tap bonds. . . .

The largest buyers of the longest eligible issue have been the big commercial banks, because these institutions continue to lengthen maturities in order to maintain earnings. . . . It is indicated many deposit banks believe the 2½s due 9/15/67-72 are at attractive levels now, but if quotations should sag, they would increase commitments in this bond. . . . It is also evident that other deposit banks that have not been in the market so far are prepared to take on the longest taxable obligation if they come into the market because of year-end adjustments. . . .

PREMIUM NO BARRIER

Certain of the commercial banks which have been or will be in the near future moving out of the 2½s due 9/15/67-72, for special reasons, are putting and evidently will continue to put the proceeds mainly into the 2¾% due 1960/65, despite the sizable increase in premium involved in the transaction. . . . There has also been some buying of the 2¼s due 1956/59, but this issue is not getting the same consideration that the longest partially-exempt is receiving. . . .

Out-of-town deposit institutions are also interested in making switches out of the 2½s of September 1967/72 but they are evidently reluctant to do so because it is more difficult to sell the idea of going into the high premium issues. . . .

SELF-REFUNDING OPERATIONS

The June and December 2s due 1952/54 are being well bought by the large money center banks, with several fairly sizable transactions taking place in these securities. . . . Switches are being made out of the earlier 2s into the 1952/54 maturity and this is being classified as a self-refunding operation. . . . Also the partially-exempts that mature in December are being refunded through purchases of the 2⅞s and the three issues of 2¾s. . . . Although the tax-protected issues have not been in ample supply because they are well held by investors, there have been enough of the last four maturities coming into the market to make the self-refunding switches advisable. . . . This operation has had a favorable effect upon quotations of the longest partially-exempts. . . .

The restricted obligations continue to get attention from the usual buyer, the savings banks. . . . It seems as though the 1953 eligible maturities are now a bit more in favor than the Victory bonds, although the latter obligations are by no means being neglected. . . . It is indicated the 1964/69s are being acquired in fairly sizable volume by non-banking institutions (other than the large life insurance companies), particularly when the market has shown a tendency to be on the defensive. . . . Switches are also being made from the 2¼s due 1959/62 into the 2½s due 1964/69. . . .

MARKET CONJECTURE

The December refunding is now coming in for greater attention, although it has never been completely in the background. . . . There seems to be no disagreement about the coupon rate, which it is believed will be 1⅜%. . . . As to the maturity date, there is much discussion, although many money market followers are now of the opinion it will be a four-year obligation. . . . A four-year 1⅜% note would seem to fit very well into the present pattern of yields and prices. . . . The December and January certificates, it is believed, will be rolled over with a 1⅛% obligation. . . . Unless there is a decided change in economic conditions, it is indicated maturing certificates will be refunded with 1⅛s. . . .

Even if there should be new developments in the business situation, it is not expected there will be important fluctuations in the certificate rate. . . . A range of ¼% is all that is looked for by some money market experts, even under extreme conditions.

Joins Revel Miller

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Raymond G. Miller is with Revel Miller & Co., 650 South Spring Street, members of the Los Angeles Stock Exchange.

Townsend, Dabney Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Carmelina N. Mazzaglia is with Townsend, Dabney & Tyson, 30 State Street, members of the New York and Boston Stock Exchanges.

Equity Investment and Life Insurance

By SHERWIN C. BADGER*

Second Vice-President and Financial Secretary, New England Mutual Life Insurance Co.

Answering question "should life insurance companies increase their common stock holdings," Mr. Badger contends from financial standpoint common stocks in reasonable amounts are suitable for life insurance investment. Holds, however, any increase in such holdings should be gradual and carefully selected. Favors legislation placing ceiling on percentage of insurance assets available for common stocks. Says purchase of common stocks by insurance companies can exert healthy stabilizing effect on stock price fluctuations.

The announced title of today's discussion is "Equity Investment and Life Insurance." I am going to concentrate on what is the most controversial and certainly the most challenging part of this broad subject, namely: "Should life insurance companies increase their holdings in common stocks?"

Sherwin C. Badger

For some time we have been hearing a good deal about the shortage of equity or risk money. Two recent statements by Chairman McCabe of the Federal Reserve Board have been notable examples. In one of these statements he emphasized his conviction that life insurance companies should be an important source of new common stock money. I suspect that we are likely to hear more rather than less debate on this question in the months ahead.

The problem of the future supply of equity money has already become extraordinarily important. If recent broad social and financial trends continue, it may well become crucial, as it has in England.

What is the problem? Of course, there are many facets to it, but in simplest terms it seems to me it lines up about as follows. Whether we like it or not, government is assuming more and more responsibility for the welfare and alleged security of the people. To meet the costs, government is taking more and more money from the people, either directly by taxation or indirectly by inflation, which, among other things, is the equivalent of a capital levy on the thrifty.

The more the government takes from the people, the less they have available for savings. Hence these savings, so difficult to acquire, become unusually precious—if they are lost through risky investment, they are not easily replaced. It is therefore only natural, and quite understandable, that these savings should seek secure outlets, and this is exactly what they have been doing. The rapid growth of life insurance, of savings accounts and personal holdings of government bonds as compared with the trickle of new savings going into common stocks should be sufficient proof of the trend.

Drying Up Sources of Equity Capital

All of us in this room are only too painfully aware that the progressive income tax falls most heavily on the middle and upper income bracket earners, the very people who formerly were the most important source of new common stock money. It is literally true that the average salaried man or professional worker, unless he is fortunate enough to have a substantial backlog of past savings accumulated before the era of high income taxes, or unless he is unusually lucky in speculation, has little hope today of being able to accumulate an adequate estate by any other savings mechanism except life insurance. With high taxes and low interest rates, he simply cannot build up an estate fast enough any other way, and the risks are great that he will die before reaching his saavings goal. Hence, he hires an estate by paying life insurance premiums.

Then on top of this tax trend there is a trend toward imposed savings plans. Social security and private business employee pension plans are examples. The House Committee's version of the revised Social Security Bill would in a few years syphon off 6½% of annual wages—syphon them off into a huge fund to be administered by government.

The point is that to an ever growing degree saving is being made more difficult, and also to an ever growing degree what savings there are are being directed either into government pension funds or into private institutions such as life insurance companies and savings banks. Neither the government pension funds, nor the funds administered by savings institutions are now available for equity or common stock investment except to a minor degree—instead they are preponderantly invested in debt instruments such as real estate mortgages and bonds.

Common Stocks and Life Insurance Companies

Where, then, is our future equity money to come from? Many suggestions have been made, and included in most of them is the proposal that life insurance funds can and should help to fill the equity void. I do not see how life insurance can escape coming to grips with the problem, difficult though any solutions may be.

There is nothing new about the idea of common stock ownership by life insurance companies. One of the first three investments made by my company exactly 105 years ago, for instance, was not only a common stock, but the common stock of a railroad that was still in the early stages of construction, namely the Boston and Providence Railroad. Common stocks played a prominent role in the portfolios of many American life companies during most of the 19th century. Most European life companies own a substantial amount of common stocks, their holdings frequently running in excess of 30% of their total assets.

Around the turn of the century all this was changed in the U. S. The famous Hughes, or Armstrong, investigation brought to light abuses by certain companies, and the Hughes report strongly condemned common stock ownership. As a result many states redrafted their insurance statutes and prohibited common stocks as life insurance investments. New York was one of these prohibiting states, and since most of the larger companies domiciled in other states do business in New York, and since such companies must "substantially" comply with the New York investment provisions, the New York law has exerted a dominant influence on the national pattern of life insurance investment.

Another deterrent to common stocks came in the early 1930's when the Canadian Government had to lend support to a life company that had a heavy concentration in common stocks, especially in utility holding company securities.

But in spite of all this background of criticism, the fact remains that a substantial number of life companies have owned common stocks for many years, in modest amounts. Recently the number of companies that have added to their common stock holdings has increased. It may surprise many of you that at the end of 1948, forty-two of the hundred largest life companies had at least 1% of their assets in common stocks.

These 42 companies would not own common stocks unless they thought they had a legitimate place in their portfolios. This is borne out by the expanding agitation to liberalize the investment restrictions of various states, or to conduct investigations designed to throw further light on equity investment for the guidance of legislators and life insurance investment officers.

New Investment Outlets Needed

In the late thirties and early forties, the main argument for liberalizing the laws was that new investment outlets for life insurance funds were needed. You all know the extraordinary difficulty fiduciary institutions had during those years to find investments at reasonable rates of return. The supply of traditional institutional investments, namely long-term debt instruments, was shrinking, while investment funds were expanding. The figures are startling. In the 15 years ended in 1945, private long-term debt, including real estate mortgages, declined by roughly $22 billion. In the same period the assets of life insurance companies increased nearly $26 billions. Is it any wonder that interest rates fell and that life companies intensified their search for other investment outlets such as direct ownership of real estate, preferred and common stocks?

More recently emphasis in the discussion of common stocks and life insurance has shifted to the broader underlying base, namely the welfare of the economy as a whole. It has become part and parcel of the national problem of the shortage of risk bearing capital.

The real questions involved, it seems to me, fall into three categories. First, are common stocks suitable investments for a fiduciary institution if its contractual liabilities are expressed in a fixed number of dollars? In other words, might investment in common stocks with fluctuating values and no maturity jeopardize a life company's ability to meet its contracts? Second, might the ownership of common stocks impair public confidence in life companies? Third, if the answers to these questions are favorable to common stocks, can legal and technical impediments be overcome?

Before attempting to answer whether stocks are suitable for life insurance investing, I should like to emphasize that both the objectives and the opportunities of investment for a life company are unique. What would seem to be investment axioms for many investors may not necessarily be

*An address by Mr. Badger before the Bond Club of Baltimore, Baltimore, Md., Oct. 11, 1949.

axioms in the life insurance business.

Ask yourselves what other investors with which you are familiar, whether institutional, trustee or personal, have the following important characteristics:

First, life companies are truly long-term investors because their contractual liabilities are long-term also.

Second, even in severe depressions cash inflow exceeds cash outflow—this was true even in 1932 and 1933. Therefore life companies are almost, if not entirely, freed from necessitous liquidation to meet liabilities.

Third, unlike individuals or other investors, life companies retain the bulk of their investment income and reinvest it at compound interest. I cannot overstress the significance of this feature. A life company builds up its capital funds not only out of original principal sums received periodically in the form of insurance premiums, but out of compound interest as well, plus or minus realized (not paper) capital gains or losses. What other investors are in this unusual position?

The first objective of life insurance investment must, of course, be safety of principal; but this is not the only consideration by any means. A high rate of income return, retained and compounded over a period of years, will more than offset even severe losses on original principal. Let me give you an extreme example to illustrate the point. The Boston & Providence stock which my company purchased in 1844 was finally sold in 1945, after the railroad had gone into receivership. The capital loss was 57% of the original investment. But during our 101 years of ownership we received dividends totaling 839% of the original investment, and most of this income was retained and reinvested. Even after absorbing our capital loss, the annual average return over the 101 years was 7.7%. Heaven knows what the figure would be if the dividends were figured at compound interest!

The mathematics of compound interest are truly astounding. Most insurance policies issued today are based upon the assumption that the reserves behind the policies will be built up at a rate of 2½% compounded. If, over a 30-year period you are able to invest in bonds at today's average rate of around 2¾%, or ¼% above the required rate, this extra ¼% compounded will enable you to absorb a capital loss of 6%. But if you can invest at an average of 5% (which is well under the going rate on good common stocks today), you can absorb out of the extra income a capital loss of nearly 80% at the end of 30 years.

I have already mentioned that 42 of the 100 largest life companies do invest in common stocks. My company is one of these, though our common stocks amount to only about 2% of our assets. You may be interested in some practical results over a very trying period, namely starting at the end of 1929, at the peak of the boom, and through 1948. Our total dividend returns on common stocks over these 18 years have amounted to almost exactly 5%. If to this is added the net gains and losses actually realized, the return has been nearly 5½%. This is the record over 18 difficult years. In 1948 alone, our dividend return was approximately 7% on the investment.

These results, I hasten to point out were not due to unusual luck or unusual skill. I should say our selection of stocks has been about average. We have, however, in recent years been operating under a broad plan which makes us progressive sellers in rising markets and progressive buyers in falling markets. This plan may have saved us from perhaps the greatest pitfall involved in common stocks, that of succumbing to overenthusiasm when everything looks good and to overpessimism when things look bad.

Well, you may say, what about the market fluctuations, especially in bear markets? My answer is that unrealized and temporary paper losses no more affect a life company's ability to meet its contracts than a temporary decline in quoted real estate prices affects the ability of your house to furnish you a place to live. I again emphasize that because of the nature of its cash flow a life company does not have to liquidate and can ride through periods of low quotations without jeopardy.

From the straight financial standpoint, therefore, it is my conclusion that common stocks in reasonable amounts are suitable for life insurance investment. Would the public's inherent confidence in the absolute security of their life insurance be weakened if life companies should invest more heavily in common stocks? Frankly, I don't believe anyone can say for sure. It seems to me the practical answer to this is that soundly administered life companies would embrace a common stock program slowly and carefully, with only a small part of their assets so placed, at least until they had been able to build up substantial reserves out of excess income. Furthermore, it is my belief that permissive legislation would put a ceiling on the percentage of assets that could be placed in common stocks, just as the laws governing life insurance investment in direct real estate ownership do.

Just a word as to some of the technical problems. The first and foremost is the passage of enabling legislation. It must be recognized that there are a great many people, including influential insurance leaders who sincerely feel that common stocks should continue to be prohibited. Quick legislation is unlikely, but economic and other pressures may become irresistible.

Obviously, several important questions must be answered, and I believe they can be. If common stocks are to be permitted, there will have to be some limitation not only as to total stock investments but holdings in any single issue. Involved here is the question of alleged control of corporations by life companies through ownership of voting stocks. A sound answer will have to be found as to how common stocks should be valued for balance sheet purposes. If the present requirement, namely valuation at market as of the year-end, is continued, it would automatically make most life companies pause before investing appreciable percentages of their assets in stocks, because it would subject their surplus accounts to the untender mercies of unpredictable market swings.

Finally, the question will probably be raised as to whether all life companies are sufficiently well staffed to manage common stocks, or whether some companies might not be tempted to speculate rather than to invest.

Whether or how soon life companies will invest more heavily in the common stock field is something only time will answer. Most observers think the trend is running in favor of stocks. If so, I believe the life companies could make a significant further contribution to our national welfare. I believe they eventually could exert a healthy stabilizing effect on stock fluctuations. Surely, if only an insignificant part of the nearly $60 billion of life insurance funds are to furnish equity capital, the search for new equity from other sources will have to be intensified. Otherwise, I am afraid, we shall either have more and bigger RFC's, or an economic system so brittle that society will no longer tolerate it.

Jos. Dixon, V.-P. of American Securities, Friedlaender Director

The election of Joseph W. Dixon as a Vice-President of American Securities Corporation was announced by E. F. Connely, President. H. N. Friedlaender has been elected a member of the board of directors.

Joseph W. Dixon

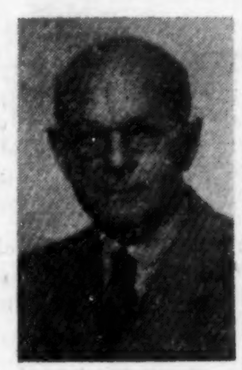
H. N. Friedlaender

Mr. Dixon was formerly senior partner of the New York Stock Exchange firm of Graham, Parsons & Co., which recently merged with Hemphill, Noyes & Co.

Mr. Friedlaender in his new capacity will continue to bear the responsibility for the personal investments of William Rosenwald, Chairman of the Board of American Securities Corporation and be closely associated with this investment banking firm. Before the war Mr. Friedlaender, a Doctor of Law of the University of Lausanne, Switzerland, had been an international arbitrageur with the New York investment firm of Abraham & Company. Earlier he had been with P. N. Kemp-Gee & Company in London.

Dr. Pogue to Retire As V.-P. of Chase Bank

Dr. Joseph E. Pogue, distinguished oil economist and head of the Chase National Bank's Petroleum Department, will relinquish his position as a Chase Vice-President at the end of the year but will retain his close affiliation with the bank in a consulting and advisory capacity on a part-time basis. He will continue to have his present office in the Chase building at 18 Pine Street.



Joseph E. Pogue

Dr. Pogue came to the Chase in 1936 at the invitation of Chairman Winthrop W. Aldrich to organize a petroleum department, a new development in the field of commercial banking. The departmental staff now includes officers specializing in oil loans, as well as engineers, geologists and statisticians with long experience in the oil industry.

Dr. Pogue's analytical studies and addresses dealing with petroleum are widely read and quoted. His two most recent studies, "Oil in Canada" and "Oil in Venezuela," have received high praise from oil industry executives.

Mervyn Stitzer With White, Weld & Co.

White, Weld & Co., 40 Wall St., New York City, members of the New York Stock Exchange, announced that Mervyn B. Stitzer is now associated with the firm. Mr. Stitzer was formerly New York manager for Hill & Co

Securities Salesman's Corner

By JOHN DUTTON

Is It Listed?

This question is asked over and over again by security buyers when a salesman offers a security that is traded over-the-counter. Although most professional investors realize that some of the most attractive values are available in the unlisted markets, there is no doubt that the resistance of security buyers to investments that are not listed is always present.

I would like to explore this problem and see if there is not some way by which a method of overcoming some of this sales resistance can be devised. Of course, most dealers and securities salesmen who are enjoying a successful business have been able to convince their clients that listing in and of itself, is no guarantee of either marketability, or the attractiveness of any security. But this boils down to a matter of individual salesmanship, of which there are many different variations, and answers to the objections, proposed by prospective purchasers of these issues.

Until about the year 1930 security dealers were able to secure new issues of prime corporations for resale to their clients. These issues were almost immediately listed and the sales resistance encountered was negligible. All this has changed. The coming of the New Deal with its cheap money tactics and its high taxes on incomes above $10,000 a year, has eliminated both the offerings of attractive bond issues (except for institutional investors) and also common stock issues.

Today high grade bond issues of the largest and strongest corporations are selling to yield about 2¾% to 3¼%. This return is not attractive to individual investors who, in turn, have to pay a high personal income tax on even this small return. As far as common stock issues go, the larger corporations have found it so easy to borrow money at low interest rates that they have been doing so rather than increase the total amount of equity participations outstanding. This condition has also been aggravated by the fact that the government's monetary policies have loaded the commercial banks and the insurance companies with a heavy surplus of investment funds, and they have eagerly subscribed to all the low paying bond issues because they have been forced to do so.

So the retail securities business has changed. The bond salesman who used to carry a rate book and who went out and sold his five or 10 bonds to one or more individual investors each and every other way has now passed out of existence. He is now replaced by a salesman who works for one of a few big houses that participate in the issues of these larger institutional borrowers. The (so-called) salesman is usually nothing more than someone who is well connected, pleasant in his manner, a good companion and an order taker. They wait for one issues after another and placidly fill the orders of their avid institutional clients whenever these 2¾% to 3½% triple AAA bargains come along.

Meanwhile the real merchandising of unlisted issues—the real selling—that is still being done in the retail securities business is by the smaller houses. A few of them operate in some of the larger cities but many of these firms are in smaller towns and the rural areas. Sometimes they are one or two-man firms, or they have only a few, to a dozen or more salesmen. They are out in the highways and byways of this country trying to sell the issues of many of our smaller corporations whose securities are not listed on any exchange. These are the firms that have had to sell such issues BECAUSE THEY HAVE HAD NOTHING ELSE TO SELL ALL THESE YEARS. Very often they have not been able to participate in the special offerings of a few thousand shares (of listed issues) that have been quickly gobbled up by Stock Exchange houses and other well-connected firms that are in the favored group, and always obtain at least a small portion of these attractive and quick moving offerings.

Meanwhile they see the National Association of Securities Dealers being dominated by officials who are members of this favored clique. They have seen attempts to limit their profit margins by this same group who do not have the problems to face which they must wade through day after day. The 5% mark-up rule is a device which these larger, important firms through the misuse of the powers of the NASD have been attempting to intimidate those firms **that are not among the favored few.**

This hard core of what is left of the smaller firms who are retailing securities in this country has been subjected to inuendo and abuse by some of the so-called holier than thou big shots within and without the officialdom of the NASD. Nevertheless, the smaller dealers of this country go on and plug away. They have turned to Mutual Funds in many cases, not always because they think the funds are so well managed, or the best possible merchandise they can sell to their clients, but (as Mr. J. C. Stubner, of Stubner & Co., Pittsburgh, Pa., in his letter to the "Chronicle" on Sept. 29 said: "The funds are the next best thing—they give the unlisted dealer an opportunity to sell listed securities and still make a profit").

Recently we received a letter from a dealer in Chicago and he said: "Since June the listed market has had appreciable gains but many of the unlisted issues are on the bargain counter. . . . I wonder if we have salesmen or order takers in our business." To this, I would reply, we have salesmen all right . . . they are doing the best that they can with the tools they have with which they work. There are a number of changes that should be made in the retailing of securities today. These problems which plague the industry are fundamental and they are serious. Each salesman and each firm can do a bit toward overcoming the difficulties involved in retailing slow moving, unlisted, securities of smaller firms. But that alone is not the answer. The whole problem needs an airing. The Securities and Exchange Commission and the National Association of Securities Dealers **both do not understand what is wrong with the retail securities business, and has been wrong with it for almost 15 years.**

But there are thousands of smaller firms who do know what is wrong. They know the answers too. Even if the problem has not been solved so far, possibly a little more light on the subject would be very timely right now. If any of the readers of this column have an urge to open up this subject further I am sure that our good friend, the editor of the "Chronicle," will be pleased to have this column turned over for such a purpose. Future articles will follow . . . possibly we can at least help one another by some frank discussion along these lines.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

At a regular meeting of the board of directors of **The National City Bank of New York**, held on Nov. 1, Leon B. Frey and Rutger B. Miller, Jr., were appointed Assistant Cashiers.

* * *

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York** announces the appointment of Frank P. Beattie as Assistant Vice-President of the bank to be identified with the handling of its business in New York State. Mr. Beattie attended Massachusetts Institute of Technology. Until his appointment by the Chemical Bank he was a Vice-President of the **Central Trust Company of Rochester, N. Y.** and has been Chairman of Group 2 of the New York State Bankers Association.

* * *

The Chase National Bank of New York announced on Oct. 31 the establishment of a discretionary common trust fund to begin functioning immediately. The plan for the fund, entitled the First Discretionary Common Trust Fund of The Chase National Bank, has been approved by the New York State Banking Board and by the Chase board of directors. A discretionary fund permits investment in securities other than those legal for trustees. The purpose of the fund, according to the bank, is to benefit persons of moderate means who wish to create trusts by combining the funds of a number of smaller trusts and investing them together. This will achieve the advantage of wide investment diversification for both principal and income. A number of individual trusts have already been scheduled for admission to the fund, the bank announced. The fund will be supervised by the trust investment committee of the board of directors. Harry M. Lyter, Personal Trust Officer, has been appointed as Administrative Officer.

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Harvey D. Gibson, President of **Manufacturers Trust Company of New York** announces that Harold F. Conley of the bank's Columbus Circle Office has been appointed an Assistant Secretary. Mr. Conley began his banking career in 1927 with the **Capital National Bank** which later merged with Manufacturers Trust Company. He returned from military service in 1946 and was assigned to Columbus Circle Office as Assistant Manager.

* * *

Stockholders of the **National Bronx Bank of New York**, at 150th Street and Melrose Avenue approved on Oct. 27 the plans for the sale of most of the banks assets to the **Manufacturers Trust Company of New York.** The plans were referred to in these columns Oct. 20, page 1559. It is understood that 82,393 shares of stock of the Bronx bank, out of a total of 100,000, were represented at the Oct. 27 meeting, and that all except 140 shares of the total represented ratified the merger which is stated to become effective Nov. 18, instead of Nov. 10, as previously announced. The officials of the Bronx Bank, are indicated as saying that since that bank will be placed in liquidation, and certain of the assets will not be transferred to the Manufacturers Trust it cannot yet be determined what the bank's shareholders will eventually receive.

* * *

Colonial Trust Company of New York has sold $1,500,000 capital debentures to Investors Diversified Services, Inc., and Investors Syndicate of America, Inc., it is announced by Arthur S. Kleeman, President. Including these debentures, which, it is stated, are fully subordinated to the deposits of the banking house, the institution's capital funds now total in excess $3,700,000. In his announcement Mr. Kleeman said:

"An increase of the capital funds of Colonial Trust Company was prompted by the rising number of our national accounts and the growing volume of our international business. Our enlarged capitalization gives our banking house a wider field of usefulness, especially at a time when so many banks of moderate size have been absorbed by larger institutions."

In its weekly "Bulletin" dated Oct. 28, the New York Banking Department stated that it had granted authorization to the Colonial Trust "to issue 4½% capital debentures in the aggregate principal amount of $1,500,000."

* * *

William Edward Campion was guest of honor at a dinner-dance given on Saturday, Oct. 29 at the Roosevelt Hotel, by the Bank Club of the **East River Savings Bank of New York.** Trustees, members of the staff and guests of the Bank Club celebrated the 50th Anniversary of Mr. Campion with the bank. Now a retired resident of Montclair, N. J. Mr. Campion has known six of the nine Presidents of the East River Savings Bank and has witnessed the passing years of progress. The bank grew from deposits of $14,412,000 to five offices, totaling $301,000,000 and 194,700 depositors in the intervening years.

* * *

The monthly tax budget payments made by home owners to **South Brooklyn Savings and Loan Association of Brooklyn, N. Y.** will hereafter be compensated by interest allowance at the same rate charged on the mortgage, Andrew S. Roscoe, President of the Association has announced. The new plan, which went into effect at this tax period, has thus, beginning Nov. 1, reduced the interest cost to the property owners. The institution, Mr. Roscoe explained, collects one-twelfth of the annual taxes, water rates and insurance premiums from the home owners each month and performs the service of paying the taxes and other budget items when they are due. There is no charge for this service. Up to now, he continued, the payments were put into a separate tax budget account, drawing no interest. With the new plan, the tax money payments will be credited to the mortgage which allows an interest saving at the rate of the mortgage, which is at least twice the current rate of interest paid on savings by any local banking institution, he said. It is estimated that a home owner will benefit at the rate of $59 on a $3,000 mortgage, he pointed out. Taxes approximating $400,000 will be paid to the City of New York at this tax period by the Association on behalf of over 3,000 home owners on whose properties it holds mortgages.

* * *

Fred Gretsch, President of the **Lincoln Savings Bank of Brooklyn, N. Y.** has announced the appointment of Edmond G. Murphy as Comptroller. Mr. Murphy, a certified public accountant was formerly associated with the General Steel Products Corporation and the State Banking Department.

Emil N. Baar, member of the law firm of Baar, Bennett & Fullen of New York, has been elected a Trustee of the **Brevoort Savings Bank of Brooklyn, N. Y.** Richard A. Brennan, President, announced on Oct. 26. Mr. Baar is President of the Jewish Hospital of Brooklyn, and Trustee of the Brooklyn Jewish Community Council and of the Federation of Jewish Philanthropies, as well as a former President of Union Temple in Brooklyn. Mr. Baar is Vice-Chairman of the Republican County Committee of Kings County as well as a member of the Advisory Board of the **Manufacturers Trust Company of New York.**

* * *

The New York State Banking Department has approved a certificate whereby the capital stock of the **Buffalo Industrial Bank of Buffalo, N. Y.** is increased from $400,000 to $500,000. The stock is in shares of the par value of $10 each. Announcement of the increase was made by the Banking Department on Oct. 7.

* * *

A merger of the **Manufacturers & Traders Trust Company of Buffalo, N. Y.** and the **Lockport Exchange Trust Company of Lockport, N. Y.** has been approved by the directors of the two institutions, and subject to the approval of the stockholders will become effective Nov. 30. Announcement of the plans were made known on Oct. 25 by Lewis G. Harriman President of the Manufacturers & Traders, and Samuel M. Johnson, President of the Lockport institution. The latter was organized on Dec. 2, 1944 under the name of the **Exchange Bank of Lockport.** The Manufacturers & Traders Trust on June 30 last reported assets of $242,679,915, while the Lockport Exchange Trust on the same date reported assets of $13,333,430, according to the Buffalo "Evening News" of Oct. 25 which said:

"The merger will be effected by the exchange of two shares of Lockport Exchange Trust stock, with a par value of $5 a share, for one share of M. & T. Trust stock with a par value of $10 a share. The Lockport Exchange Trust will pay a dividend of $1.15 a share to its stockholders prior to the merger. All the directors, officers and employees of the Lockport institution will continue with the enlarged Manufacturers & Traders Trust."

* * *

The stockholders of the **Phoenix State Bank & Trust Company of Hartford, Conn.** on Oct. 25 approved plans to reduce the par value of its stock from $100 to $25 each, and to increase the number of its shares from 16,000 to 64,000. Approval was also given to plans for the declaration of a stock dividend of 25%, the stockholders also at the same time authorizing the transfer of $400,000 from the surplus on undivided profits to the capital in furtherance of the plans to increase the latter from $1,600,000 to $2,000,000. These plans are incident to the proposed merger of the **Capitol State Bank of Hartford** (the name of which was recently changed from the Capitol National Bank & Trust Co.) with the Phoenix State Bank & Trust, references to which appeared in these columns July 7, page 72, and Oct. 13, page 1464. Under the terms of the merger, it was noted in the Hartford "Courant" of Oct. 21, the stockholders of the Capitol Bank will receive 2½ shares of the Phoenix State Bank stock for each Capitol share (par $25) they hold; the Capitol Bank had a capital of $300,000. The "Courant" added that the exchange equivalent for Capitol stock at the market is about $135 a share. The Capitol will be operated as a branch of the Phoenix State Bank.

* * *

Harry B. Dembe, President of the **Broadway National Bank of Bayonne, N. J.** died on Oct. 22. He was 63 years of age. Mr. Dembe was also Terasurer of the Hudson County Bar Association, and according to special Bayonne advices to the Newark "Evening News" was associated with his brother Charles in the law firm of Dembe & Dembe.

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The directors of the **Corn Exchange National Bank & Trust Company of Philadelphia** have elected Ellis B. Ridgway, Jr. as Vice-President, effective Nov. 1, it is noted in the Philadelphia "Evening Bulletin." Mr. Ridgway heretofore held the office of Assistant Vice-President.

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John A. Byerly who has been associated with the **Fidelity Trust Company of Pittsburgh** for 27 years, has been elected Vice-President and Trust Officer, succeeding the late George C. Burgwin, Jr. who died Oct. 8. Mr. Byerly had already been a Vice-President, and was elected a director this year, it was noted in the Pittsburgh "Post Gazette" of Oct. 24, 1949.

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Through a stock dividend of 25% on its common stock the **National Bank of Jackson, at Jackson, Mich.**, has increased its capital from $400,000 to $500,000. The dividend was payable to stockholders of record Oct. 11, the enlarged capital, it is stated having become effective Oct. 19.

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The Amarillo National Bank of Amarilla, Texas, has enlarged its capital to $1,000,000, according to advices made available by the Office of the Comptroller of the Currency. In the process of raising the capital it was first increased from $265,000 to $750,000, by a stock dividend of $485,000, and the final step in bringing the capital up from $750,000 to $1,000,000 was accomplished through the sale of $250,000 of new stock. The new capital became effective Oct. 18.

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As a result of discussions with the stockholders of the **Capital National Bank of Sacramento, Calif**, with a view to the acquisition of the bank's outstanding stock, that institution will soon become the key Sacramento Valley office of the **Anglo California National Bank of San Francisco**, according to an announcement by Allard A. Calkins, President of Anglo Bank. According to Mr. Calkins no major changes are planned in the administration of the Sacramento institution. All officers and members of the staff will continue in the employ of Anglo Bank and will participate in Anglo's pension plan and other personnel benefits. It is contemplated that the present directors of the Capital National Bank will compose Anglo's Sacramento Advisory Board and that the Sacramento office will be named the Capital office of Anglo Bank. George C. Bassett is Chairman of the Board of the Capital National, and Lee L. Madland, is its President. When the transaction is consummated, the Capital office will be Anglo's 28th office in northern and central California and the Anglo system will have assets exceeding $600,000,000. The Capital National Bank, an outgrowth of a bank chartered in Sacramento in 1893 and nationalized under its present title in 1911, has deposits of approximately $95,000,000, capital, surplus and undivided profits of more than $5,700,000 and total assets in excess of $100,000,000. The Anglo and the Capital National have enjoyed a close relationship for many years. The Anglo is the Capital's major San Francisco correspondent.

* * *

Francis H. Marsh, Chairman of the Board of the **Bank of Toronto (head office Toronto)**, died on Oct. 23. Mr. Marsh, after previous banking experience joined the staff of the Bank of Toronto in 1921; according to Collingwood advices to the Toronto "Globe and Mail." Mr. Marsh in 1938 was made General Manager, in 1941 he became a Director of the bank, and the following year President. He was appointed Chairman of the Board in 1942. He retired in 1947. At his death he was 74 years of age.

* * *

G. L. Stewart has been elected a director of **The Royal Bank of Canada**, head office Montreal, the bank announced on Nov. 1. Mr. Stewart is President of Imperial Oil Limited.

Washburne Heads Central State IBA

CHICAGO, ILL. — Hempstead Washburne, Harris, Hall & Co., Chicago, was elected Chairman of the Central States Group of the Investment Bankers Association of America at the annual meeting of the Group Oct. 28. He succeeds Andrew M. Baird of A. G. Becker & Co., Inc. Other officers elected are: Charles R. Perrigo, Hornblower & Weeks, Vice-Chairman; Holden K. Farrar, Smith, Barney & Co., Secretary-Treasurer.


H. Washburne

New members of the Group Executive Committee are: Edward C. George, Harriman Ripley & Co., Inc.; George S. Channer, Jr., Channer Securities Co.; Thomas W. Evans, Continental Illinois National Bank and Trust Co.; Lee H. Ostrander, William Blair & Co.

The new officers and members of the Executive Committee will take office following the annual convention of the IBA, Dec. 4-9 at Hollywood, Florida.

Ohio Valley Group of IBA Elect Officers

LOUISVILLE, KY.—At the annual meeting of the Ohio Valley Group of the Investment Bankers Association, Todd Cartwright, Sweney, Cartwright & Co., Columbus, Ohio, was elected Chairman. Other officers elected were Campbell Johnson, W. E. Hutton & Co., Cincinnati, and Milton Trost, Stein Bros. & Boyce, Louisville, Vice-Chairmen; and John Greene, Greene & Brock, Dayton, Secretary and Treasurer. Elected members of the Executive Committee were Dillman Rash, J. J. B. Hilliard & Sons, Louisville, Ky.; Wood Hannah, Bankers Bond Co., Louisville, Ky.; H. J. Hoermann, Provident Savings Bank & Trust Co., Cincinnati; Stanley McKie, Weil, Roth & Irving Co., Cincinnati; John Heimerdinger, Walter, Woody & Heimerdinger, Cincinnati; Ewing Boles, The Ohio Company, Columbus.

An unusual feature of the annual meeting was that it was held at Churchill Downs race track.

Among the out-of-town guests attending were Hal H. Dewar, Dewar, Robertson & Pancoast, San Antonio, Texas, President of the Investment Bankers Association; Murray Hanson, General Counsel for the I.B.A.; Richard Delafield, First Boston Corp., Chicago; Hudson Lemkau, Morgan Stanley & Co., New York, and a large number of Cincinnati bankers.

We Must Have Better Than This!

"I suggest that many people favor social legislation because they believe it is a good thing in itself for government to do as many things as possible. Some favor socialism on the European model, and regard social legislation as a step in that direction. Further along are the Communists, who want a big centralized Federal government which will dissipate our resources and which they can then undermine. They know that a centralized government shuts out the abilities and minds and influence of men and women in the localities and in the States. They know that they couldn't undermine 48 strong separate States.

"For all these people social legislation is a part of a plot.

"We Republicans, on the contrary, should approach social legislation from an entirely different standpoint — that the American competitive economic system is the greatest possible producer of material welfare just as it is the foundation stone of political liberty. But, excellent though it is, it is not perfect and there are some chinks which it does not always fill. If nothing is done about filling those chinks, then discontent will grow until it endangers the whole system itself. We, therefore, favor social legislation to fill in the chinks which the competitive system does not reach—both as a matter of decency and humanity and in part in order to maintain enthusiasm for the competitive system."—Henry Cabot Lodge, Jr.

We must hope that somewhere in the Republican party clearer understanding, greater vigor and more forceful leadership can be found.

If not—well, it simply must be found.

Notes Further Decline in Corporate Profits

U. S. Department of Commerce reports second quarter 1949 corporate profits continue decline shown through previous quarters.

Corporate profits declined further in the second quarter of this year, according to preliminary estimates of the Department of Commerce, contained in the October issue of the "Survey of Current Business." This was the third successive quarterly decline from the third-quarter 1948 high.

On a before-tax basis, second quarter profits amounted to $6.6 billion, 12% below the $7.5 billion earned in the first quarter of the year and about one-fourth less than in the second quarter of 1948. The first-to-second quarter profit drop was associated with falling profit margins, as sales experienced only a fractional decline over the same period.

Adjustment of the profit estimates to take account of seasonal variations reduces the first-to-second quarter decline to 10%. On this basis, at annual rates, the decline in profits before taxes was from $29.4 billion to $26.4 billion.

The relative movements of aggregate profits after taxes in the recent period were similar to those of profits before taxes. This similarity reflects the virtual stability of the overall effective tax rate, which in both 1948 and the first half of this year was approximately 40%.

Profits earned in current production computed by adding to profits before taxes the inventory valuation adjustment—the difference between "book" costs of goods sold and the cost obtained by adjusting book costs to reflect the current, or replacement, value of inventories used up in production—fell much less than book profits. Inclusive of the inventory valuation adjustment, profits before taxes at seasonally adjusted annual rates were $33.0 billion in the second quarter of 1948, $31.8 billion in the first quarter of 1949, and $31.1 billion in the second quarter of the current year.

The more favorable showing of profits, including the inventory valuation adjustment, is due to the fact that this measure takes into account the effect of the recent downward movement of prices on the replacement cost of inventories. In the computation of "book" profits, the predominant corporate practice is to value inventories used up in production on an original cost ("first-in, first-out") basis, rather than at current replacement prices.

Attention is again directed in the report to the difficulties encountered in the measurement of corporate profits and the inventory valuation adjustment on a quarterly basis, as well as to the problem of adjustment for seasonal variation. These limitations of the data should be considered in the interpretation of quarter-to-quarter changes.

McNamee Vice-Pres. of George R. Cooley Co.

ALBANY, N. Y. — George R. Cooley & Co., Inc., 100 State St., announces that Daniel V. McNamee, Jr., has been elected a Vice-President of the firm as of Nov. 1, 1949. He has been a director of the company since Feb. 15, 1946. Mr. McNamee is a native of Hudson, N. Y., and widely acquainted throughout this area. He is a graduate of Yale College and Yale Law School.

Mr. McNamee's business career includes four years in a large Wall Street law firm, from which work he brings to this company an extensive experience in corporate and financial problems. During the war, in addition to active service as an officer in the U. S. Coast Guard Reserve, Mr. McNamee spent over two years on the staff of War Production Board on special assignment, dealing primarly with the problems of telephone, electric power and gas utilities.

He has represented George R. Cooley & Co. on the boards of directors of companies in which the firm has had continuing interests.

L. S. Kerr Co. Dissolved

L. S. Kerr & Co., New York City, members of the New York Stock Exchange, dissolved their business Oct. 31.

Economic Readjustment and Money Market

Dean G. Rowland Collins and Marcus Nadler, of the New York University Institute of International Finance, issue bulletin covering recent economic and monetary developments. Conclude under Administration's "directed" economy policy there has been no aversion to inflation as means of sustaining demand and high level of employment. Say credit policies on whole have been sound and pegging government bonds was element in maintaining economic stability, but urge more flexibility in bank reserve system.

The International Institute of Finance, through its director, Dean G. Rowland Collins, and Marcus Nadler, research director, has just issued a bulletin reviewing recent economic readjustment and the money market. According to this analysis: The economic readjustment that began toward the end of 1948 was not sufficiently deflationary to warrant a return to peace-time deficit financing by the Federal Government. Because of previously enacted legislation, such as the farm-price-support law, social security legislation, and other measures, and because of a number of other favorable factors, including the staggered nature of the readjustment, the huge pent-up demand for housing and automobiles, the large savings of individuals and the enormous government expenditures, the bulletin states, the business readjustment did not assume a serious character. The decline in employment and prices was moderate, and the national product remained at a high level.

As conditions changed, the government was quick to change its economic policies. Whereas early in 1949 the administration was primarily considering ways and means of curbing the forces of inflation, later on it adopted measures intended to prevent the mild readjustment from becoming a serious recession. In spite of a high level of business activity the Treasury ended the fiscal year with a budget deficit of $1,811 million, and during the current fiscal year the deficit will probably be much larger. The monetary authorities, and notably the Reserve Board, promptly took steps to ease the money market. The provisions of Regulation W were relaxed in March and again in April, 1949. Finally, the authority of the Board of Governors to regulate instalment credit was permitted by Congress to expire on June 30, 1949. Margin requirements on security loans were reduced at the end of March, 1949. Reserve requirements were lowered at the beginning of May and an automatic reduction took place on June 30, 1949, when the temporary authority of the Board to raise reserve requirements lapsed. Another reduction in legal reserves was made in August, 1949—all of these changes resulting in an aggregate of about $3,800 million of additional excess reserves. This increased substantially the credit-expansion power of the banking system and caused a decline in yields of government securities. The lower interest rates will not only reduce the cost of refunding operations and financing the deficit by the Treasury, but may also induce investors to seek an outlet for their funds in corporate and municipal securities.

Indications are, according to the bulletin, that the low point of the present readjustment was reached in July, 1949, when the index of industrial activity of the Federal Reserve Board stood at 162. In August the index rose to 170 and it appeared that it would be somewhat higher in September. Were it not for the strikes in the coal and steel industries, the upswing in business would probably have continued, partly because of seasonal factors and partly because of the replenishing of badly depleted inventories. The termination of the readjustment is, however, not an unmitigated blessing. The economy has come strongly under the influence of measures taken by Congress and the administration. Government intervention in the economy, as well as the support of farm prices, prevented a material decline in the cost of living and an

Dr. Marcus Nadler Geo. Rowland Collins

increase in real wages. The maladjustments that have developed during the past few years not only remain, but in many instances have been accentuated. Instead of reducing the public debt in a period when business activity is at a high level, the Treasury is operating with a large deficit, thus increasing the debt.

The credit policies adopted by the monetary authorities on the whole, says the bulletin, have been sound. The policy of preventing government bonds from going below par was an important element in maintaining economic stability in the country. It is to be hoped, however, that in the future this policy will be more flexible and will not become as rigid as during 1948 and the first half of 1949. Events of the last few years have clearly indicated that changes in the Federal Reserve Act are necessary. The system of reserve requirements at present in force often comes into conflict with the policy of the government of keeping the government bond market orderly. The present structure of reserve requirements, based on geographic location of individual banks, is outmoded and should be revised. In addition, nonmember banks should be made subject to the same reserve requirements as member banks in order to eliminate the discriminatory advantage they now enjoy. Before any drastic new bank legislation is enacted, however, the situation should be carefully studied from every angle.

Characterizing the present American economy as a "directed" economy, the bulletin summarizes its main features as follows:

(1) It is the policy of the government to maintain mass purchasing power in order to sustain the demand for commodities and, in turn, a high level of employment. Where productive capacity is not sufficient to meet the demand, it can rely on the system of private enterprise to construct the needed facilities.

(2) The administration is not averse to injecting an element of inflation into the economy. While in the past, particularly in the summer of 1948, a great deal was said about curbing the forces of inflation, actually no effective step was taken. Once the forces of readjustment began to assert themselves, however, there was no hesitation on the part of the authorities to adopt measures that were inflationary in character. The belief seems to prevail that the two largest income groups, namely the farmers and organized labor, are not adversely affected by commodity price inflation.

(3) High prices are regarded by the authorities as not only desirable but even indispensable, because of the enormous public debt and the large government expenditures. The higher the price level, the greater the national product expressed in dollars and the greater the revenue of the government. A decline in prices would cause a drop in national income and hence in government revenue, and an increase in the burden of carrying the public debt, which amounted to $256.7 billion on Sept. 30, 1949. Rising prices tend to increase the demand for commodities, thus stimulating business activity and employment.

(4) A major objective of a directed economy is to broaden the social-security provisions to embrace more people and to provide lower income groups with low-cost housing, unemployment insurance, old-age pensions, medical care, and other benefits in order to raise their standard of living and thus maintain the demand for commodities and services.

(5) The monetary authorities employ qualitative and quantitative credit control to influence not only the cost of credit and capital but also their flow into channels likely to maintain the purchasing power of the people at a high level.

Since government intervention is expensive, the bulletin continues, the immediate period ahead, unlike the years 1922 to 1929, will not be marked by the continual reduction of taxes on individuals and corporations, which had a pronounced effect on capital expenditures of corporations and on the formation of equity capital. The current readjustment has also been marked by a decline in profits of corporations, which consequently will be less able to plow back earnings into business than during 1948. Since in the postwar years the economy has had to contend with a dearth of equity capital, it may be expected that the private sector of the economy will not be as dynamic as it was during the period from 1922 to 1929 and that capital expenditures will depend increasingly on the government, which will supply capital either through direct expenditures or through loans or guarantees made by governmental agencies. Hence, it would appear that in a directed economy government intervention must be continuous and substantial in order to be effective. This is particularly true under current circumstances since no real adjustment has been made in cost of production. So far there has been only a small decline in commodity prices and only a moderate increase in the efficiency of labor. It is doubtful whether the correctives are sufficient to provide the basis for a dynamic expansion of private business.

Nominating Comm. For NASD Dist. 12

PHILADELPHIA, PA.—A committee composed of Arthur S. Burgess, Biddle, Whelen & Co., and Samuel K. Phillips, S. K. Phillips & Co. of Philadelphia, and William G. Simpson, H. M. Byllesby & Co., Inc., Frederic P. Mullins, A. E. Masten & Co., and Wilson A. Scott, Grubbs, Scott & Co., of Pittsburgh has been named to nominate successors to the five vacancies existing in the District 12 Committee of the National Association of Securities Dealers.

Getting Your Customer's Appreciation

(Continued from page 4)

money that they commit. I won't use the word "spend," I'll say "commit."

So, you can offer them security and savings, you can offer them the building up of their income, you can offer economy—you offer economy by the fact that when they commit themselves to an investment program they don't spend their money. They still have their money. On a wise purchase of securities, the money is not spent because the principal is still there.

How much protection, for instance, which is a basic desire for any family, do some of these tangible things offer, in comparison with an investment program? From a long-term point of view, they don't offer much.

The point here, gentlemen, is that what you have to sell has a very substantial appeal, in a rational way, to the American public, but the appeal is not so easy to make, because what you sell can't be seen and felt, and appreciated, as readily as some of these other things.

In order for you to put your selling program at the same competitive level, as all of these other manufactured products that are competing for the American dollar, you at some point in your interview, make a tangible and material presentation to your client. That takes the form of a number of material things that describe, or are, the investment. You have all heard that old saying that seeing is believing, and a lot of people depend upon that.

A lot of people will not believe what they only hear, as exemplified in the slang expression, "Well, that I gotta see!" That is just another way of saying that he does not believe what you are saying, but if he saw it he would believe in it.

A thing, itself, is reality. There is an ashtray sitting on the desk before me, hidden from your view, which I am informing you about. But when you see it, it proves itself. It is there. You see it, hear the noise it makes and, if I were to pass it among you, you could feel it.

Just hearing something, by ear, you don't believe it as quickly as if you perceived it with your other senses, also. When a salesman tries to sell you an automobile, he doesn't just come into your house and talk about the car to you. He will get you out and show you the car and let you feel it, and let you ride around in it.

You must also do that, as closely as you can, with what you have to sell. That will make your selling a lot easier. This business of hearsay evidence is not accepted by a great many people. That might be especially true of investment salesmen's claims, that they must be backed up by tangible evidence in order to get acceptance by many buyers, and if you can show them something, I think they will accept what you say a lot quicker.

There is another reason why you should try to make a factual demonstration to the people whom you call on. No matter how hard we try, sometimes our words are misunderstood, and sometimes some investment salesmen, I believe, use terms and phrases that a lot of their customers do not understand.

It is a lot easier for them to completely understand your message, if you can back it up by saying, "Here it is, right here," and show it to them. You have just doubled your presentation effectiveness by showing them something like that.

One point that you will certainly gain if you make a demonstration to a customer is that you will get his attention, because if you give him something to look at, or pick up and handle, he gives his attention to it. That is one way of knowing that you have his attention, when you give him something to handle.

Sometimes, when the man is just sitting there listening to you, you don't keep his attention directed to what you are saying.

All right, what are some of the things that you gentlemen can demonstrate? You probably know the answer to that question a lot better than I do, but here are some suggestions. If you have a skeptical customer who doesn't believe that if he puts his money into investments that he will get any income out of it, you can show him a record of earnings of different security groupings. I saw one in the paper somewhere the other day that showed the earnings from certain groups of stocks over a period of the last 20 years, and they averaged out somewhere around 7% income. That is a pretty effective thing to show to a customer.

You might also show him a record of appreciation of American stocks over a period of years. You could show him industry records, and figures. I know that one investment house puts out pamphlets on different industries, the aviation industry, the railroad industry, the oil industry. That is a piece of literature that would be particularly interesting to a person who was thinking of making an investment in one of these industries.

You could show figures that describe different trends in industry, or the trends in the investment field, as a whole. Then, of course, there is the individual company prospectus, or syllabus, that you could have with you, and show the growth of the company, the ability of its management, and the future potentialities of this company, and the industry that the company is engaged in.

Also, every investment house, I believe, puts out certain special bulletins on securities that they may specialize in. Well, those bulletins, or those letters, should be used by salesmen, when they are out and about.

Another demonstration that you can make is the stock, itself. I don't know whether any security salesman ever carries around a stock, to show people, but some people may never have seen a stock, or a bond. You would not buy an oriental rug without seeing it, and a lot of people figure the same way about investments.

Another demonstration that you may make, and I think it is a very good one, is your customers' room. That is a demonstration room. It is a living demonstration. Some people who sell services, or intangibles, believe that they never have anything physical that they can use to demonstrate. Well, certainly, every investment salesman can, at some time, get a prospect to come down and come into the customers' room and see what is going on there, and get him to look at the tickers going and everything else there. That would be one of the best demonstrations I can think of for salesmen to use.

Another demonstration would be your boss, believe it or not. Bring your customer in and introduce him to the brass, a demonstration of management's ability, and of management's interest in the customers.

If your immediate superior doesn't agree with you, I think you can pretty well convince him that he represents a proper demonstration for your new accounts. Bring them in and have them shake hands with him. What you people are doing is selling your house, too, on a selective basis, and in order to sell your house, why not use some of the brass there, to build up confidence in your investment house.

There is another demonstration in this city, or at least for you fellows who work in the city. You can bring new accounts in to see the Stock Exchange. Did any of you ever think, when you had a new customer, whom you could not quite close, that you might be able to put your point over if you brought him down to the Stock Exchange and showed him what goes on there? There is a very live, colorful, and active demonstration for a person to make. There are other things that you can show people, the volume of business, for instance, that your house is doing, or the volume of business that an industry is doing, or that of a particular company that they are interested in.

You can also use testimonial letters. Believe it or not, buyers like that. If they can see, written down somewhere, where someone else has bought what you are selling, and that this someone else has liked it well enough to write in a letter of appreciation, then that letter is a really hot selling point for a salesman to use with other clients. Every industry uses testimonial letters.

Offering a Case History

One other suggestion that I have to use as a demonstration would be a typical case history of a successful investment program, a typical example of how your efforts in setting up investment programs paid off for one of your other accounts.

I am thinking, now, in a very practical sense, that if you can show a hesitating prospect how someone else put his money into the market and made out very well, that that would be a very worthwhile selling point.

All these demonstration features that I have been suggesting here are merely physical evidences of the worth of what you sell. It is not too easy to go out and meet someone and just tell them how much they could gain from being in the market. If you can really show them something, that is realistic proof that other people are gaining a lot by being in the market, then that carries much more weight than anything you could possibly say, because through those physical evidences you have proof of the thing, itself, which can not be denied, that the thing has reality, and showing the typical investment program, or showing any kind of literature of pertinence or interest to this man's investment plan, that is getting very, very close to the thing that you are selling, an investment program.

Insurance salesmen certainly make use of demonstrations. You know that they have very elaborate sales kits and sales presentations, and a good insurance salesman, when he is talking with a client, is filling out the form from which the policy is written, and he doesn't do the filling out, but the prospect fills it out.

An insurance salesman gets his prospect to do a lot of self-selling, through the use of demonstrative material. There is no reason why an investment salesman cannot do the same thing. It is not always the salesman who does all the selling, it is the client who sells himself to a great extent, but in order to have him do any selling for himself, you have to give him something to use, and what you give him is all these things we have been talking about, all the promotional literature your house provides you with, and any other things that you can think up to use as a demonstration.

However, don't ever make the presentation of physical material so super-clever, or so all-embracing, that it kills the sale. In other industries, some of these demonstration gadgets are so tricky and clever that the person looking at them forgets all about buying and becomes interested only in the demonstration, itself. Be sure that anything used to demonstrate is helpful in making the sale without an overpowering entertainment value in its own right.

When you go to a night club and the feature act is about to come on, there is a great rolling of the drums, and then the master of ceremonies gives a great big sendoff, and then, finally, the act comes on. Everywhere you go, as far as the entertainment field is concerned, the actors are given a tremendous sendoff. Even in plays the point is built up to where the main character comes in.

Build up Your Solicitation!

When you are going to show anything to a prospect, in your solicitation, don't just hand it over without saying something. Build it up, first. That is a principle which is true in every walk of life, that if something is built up beforehand it is more appreciated.

If you can say to your customer, "I am going to show you something that is of particular interest to you, because it's a case which is parallel to your own, a man whose investment program I took over a while ago, and he and I, together, planned a very intelligent program of committing his funds. I want you to look at this and see how successful it has been for him."

When you say that to a person it can't help but make him interested in what you are going to show him. You must build everything up before you bring it out and show it to the person.

A great many salesmen who use demonstration material do not take good care of it. The pages become dog-eared. They carry briefcases which present a bad appearance. They probably walk in wearing a brand new suit, but carrying an old, battered brief case.

That briefcase is part of your presentation. Keep it looking well. Anything at all that you use as material evidence of what you are selling must also be kept up to date.

Every company I have ever worked for has failed to keep salesmen's selling materials up to date. You always had some kind of an old fitting and they wanted you to sell the new fitting by showing the old one. Many salesmen, in the back of their cars, have the out-dated model, and yet are on a quota to sell the new model. Your literature has not been revised to show the new item. It is always behind time, and yet if the salesman doesn't sell the new item he is called on the carpet by the boss.

It is the responsibility of management to supply salesmen with good, up-to-date selling tools, and it is the responsibility of the salesman to keep them in good condition. There is nothing that will kill a sale, or interest, as fast as pulling out some old, moth-eaten piece of literature that was printed a year ago, that doesn't reflect the current status of the situation. If you are carrying that sort of thing around, throw it out and get some new material.

I know a fellow who sold air valves for radiators. The company he worked for had brought out a new air valve with a much wider port in it, so that when the radiator was vented the air would move out with great intensity before the stem came up and closed the valve off. That was a beautiful valve. And the way he demonstrated it was by carrying around with him an ordinary valve of a competitive make as well as the new valve, and he would blow cigarette smoke through the old valve, which would come out of the port in a very small stream. Then he would take the new valve, do the same thing, and an enormous amount of smoke would pour through the port.

That fellow just didn't have to talk about valves. All he did was make that demonstration and pick up the orders. It was so obvious that the new valve was way ahead of the old valve that he had no difficulty whatever. That is one instance where a demonstration paid off.

A short time ago a young chap came in to see me in the middle of the day carrying with him two enormous cases. I said, "What have you got there?" "Oh," he said, "that's what I sell, French laces," I asked him to let me see them, so he placed one of these large boxes on the desk, opened it up and, I'm sure, I've never seen anything more exquisite in my life than that lace. I just couldn't believe a human being could make lace as beautiful as that. It was perfect.

He showed me everything he had in the case, because he could see that I was very much impressed with what he had, and also because he appreciated my interest. I asked how the laces were selling and he said, "Fine. All I have to do is show it." The laces were beautiful, and there could be no resistance to them.

When copper pipe and fittings were first introduced into the building industry, for use on hot water heating systems, there was a product that had to be demonstrated. You may remember that in many basements you will see large black steel pipe being used in the basement as risers and mains, both for steam and hot water. Well, this copper pipe could be reduced in size, in a ten- or twelve-room house, to where your main line in the basement is an inch and a quarter, to just a small pipe, and the riser from the boiler can be about a two and a half inch riser. It is a much neater-looking job, and it can be installed very fast.

The risers going up to the individual radiators can be cut down to a half-inch tubing, instead of, say an inch and a half steel pipe. Well, like everything new, that had to be demonstrated in order to sell. Instead of a steamfitter cutting and threading steel pipe, which took a long time, all he had to do to put this copper job in was to heat up the end of the pipe, insert it into the fitting, and apply the solder, and the whole job would be soldered clear through. Didn't have to put the screw threads in the ends of the pipe, which takes a long, long time. It is a much neater and faster job. But in order to sell it it had to be demonstrated.

But once it was demonstrated, the trade would immediately go to copper, because they knew they could save a lot of money, and put it in faster.

I am just presenting a few instances here of how demonstrations sell things. In a great many industries, the demonstration does most of the selling. There is no reason why, in your industry, you can not capitalize a little bit on the worth of a good demonstration.

The Passive Demonstration

There is a passive demonstration and an active demonstration. As the term indicates, the passive demonstration is when the prospect just sits and watches, and the active demonstration is when the prospect takes an active part in the demonstration, himself, such as getting behind the driving wheel and driving the new car, or trying to sweat the pipe and the fitting together, himself.

You will find that if you can get your prospect, somehow, to take an active interest in what you are demonstrating, that there again they will sell themselves on what you have. An active interest is stimulated by handling the literature, looking at your charts and figures, going

over with you the prospectus and other things that you will present.

There is one warning. You must not allow your demonstration to get out of your own control. Let us suppose you hand the person a piece of literature concerning a certain industry, and he takes it into his hand. Well, if he were to read the whole thing it would take him an hour to finish it. You don't want him to do that.

You have to control the demonstration material all the time.

It is my recommendation that before you try to ask him for an order, you get the literature back from your prospect and put it away in your briefcase. Otherwise, he is still fiddling with it and half of his attention is on this demonstration which you gave him, and now you are trying to close the sale.

That is my own opinion. Other salespeople might think otherwise about that. Of course, at any time during a demonstration you might get an order. Naturally, you will pick the order up when you can get it. But usually to close a tough sale you have to get your literature away from the prospect so that you can lead up to your close.

Remember that when you show things to a person they are used primarily to sell that person on certain points, and you have got to help these things to sell by pointing out the highlights to the prospect.

These demonstrative materials are only to help you to sell, and I think in your case that when you use it you will still have to talk along with it, to help it along.

I know that a lot of you gentlemen do a lot of your work over the telephone. Without a television set at both ends, you can't very well demonstrate material, but I do recommend that on your personal sales work you bring material things with you and use them, because they will help you out a lot.

Removing Objections

I am going to talk for a while, now, on how to remove objections.

I imagine you all meet with an objection once in a while, to what you have to sell. But everybody in this life wants things. That is inherent within us all, to want a lot of things. If we could all have a Cadillac and a yacht, there is no reason why we would not have them.

There are certain limitations and restrictions put on what we want, however. Most of the time, those restrictions have a lot to do with money. All of us just don't possess the money needed to buy Cadillacs and yachts and things like that.

Money is a very valid limitation. Some of the limitations to buying items are real, and some of them are not real. A lot of people are not buying investments because of only fancied objections in their minds, and if those objections were removed—and they can be—they would probably buy investments.

Once these limitations are out of the way it is natural for people to go ahead and buy things. Just consider your own case. There many be something you have in mind to buy, at this moment. That is the natural course in life. We progress from one level of possessing things to another, your income goes up and you begin to amass more things around you. If you were to go to a wealthy man's home you would see that he has spent his money, quite readily, on very expensive furniture and decorations and paintings, imported objects of art. Go out to his garage and you will probably find two or three very expensive automobiles.

It is natural for people, when they can afford things, to go ahead and buy them, because those things are nice to have.

Now, it is part of a salesman's job to remove objections on the part of his prospects. Every salesman meets with opposition, somewhere along the line, to what he sells. You must expect that. You have all been selling long enough to know that you meet with objections continually.

Just what is an objection? One definition might be that it is an adverse reason or argument. You go in and say, "Mr. Brown, I think you should buy a thousand shares of such-and-such," and he will say to you, "Well, I'm sorry, I don't think I should because—" and he will bring out a reason why he believes he should not.

It is up to you to remove that reason which keeps him from buying. That is a very large part of your work. If there were no objections, certainly, we would not need any salesmen. Anybody could go out and take orders. It is the removal of the objections, expressed or unexpressed, that a salesman concentrates a good deal of his time on.

There is also conflict in what people want. One person wants a television set, and another person wants a sum of money to be spent somewhere else, and they can't afford both. Well, there is conflict there, in what the person wants.

Sometime, somewhere, that conflict will be reduced, and a decision will be made, and the money will probably be spent, one way or the other.

It is the work of the television salesman to remove that other conflict and get the man to commit himself to the television set. So, there are objections that arise between the different things that a person wants to spend his money on.

Objections also arise in this way: There is a natural inertia that we have to parting with money; a lot of us are so inclined, anyway. If we have money, we don't like to part with it. There is a great deal of resistance in that direction, when it comes to people spending their money for things. You know that when you go around you meet that resistance all the time, to people's buying what you have to sell. All salesmen meet with that resistance and they all think, "Oh, if I were only in some other industry, where things are sold so easily."

But I go over and talk to the men in that other industry and they feel, "If there were just some other field that they could be in, where there wasn't so much resistance to what they have to sell." This resistance is universal.

One reason why we meet with that "no" is that people are just backward and full of inertia and being in a rut of not spending money in a new way, or making any large commitment.

Another reason why objections are met with is that people resist change. "No, we have done things in this fashion for 20 years and, by thunder, we're going to do it this way the rest of our lives."

It is the salesman who overcomes such resistance to change.

In properly understanding objections, you should realize that you meet with primary objections and selective objections. Here, again, I believe that if you understand the subject according to general classification, you will know better how to treat that situation. There are primary objections that you meet with, such as:

"No, I have no money to buy investments. I don't need investments. We are not interested in the market."

Primary objections. Nothing to do with your particular house. They just "don't want investments."

Now, the selective objections are different. A selective objection is met with when a person is willing to commit himself in the investment field but he doesn't like your particular offering. What you are trying to sell, he objects to. Or else he objects to your personality or to something about your investment house. He doesn't want to do business with your house. Or else, he may be objecting to some immediate circumstance, such as the price at the present time. Those are selective objections, which are a lot easier to remove than the primary objections.

In removing these primary objections, we necessarily have to do a primary selling job, to provide the incentive for them to be interested enough to buy investments.

In meeting selective objections, you remove their particular objections against some policy of your house, or something like that.

Now, removing objections is nothing other than pin-point salesmanship. That's what it is. Please understand this point because it will save you a lot of wear and tear. When an objection is thrown at you, you should realize that you have a selling job to do, right in a small area, in order to get rid of that objection. Until you knock that objection out, you can't go on, and you can not get the sale.

So, regard objections as calling for pinpoint selling, to remove those particular objections.

There is another classification of objections that I would like to have you consider, certain general types of objections. The first one is the **brush-off type.** The next one is the **stall.** And then the **information - seeking objection.** The fourth one is the **valid objection;** and the fifth is the **insurmountable objections.**

The first two are "dodging" types of objections. They just try to wriggle out and away from you. The last three are what I classify as real objections, serious objections.

I am going to talk of these general types in a couple of minutes, but I want to say a few more words about objections in general, first. Now, you know very well that you are going to meet with objections if you keep on selling, and the best way to handle them is to prepare in advance for those objections, and here are some reasons why you should. If you are ready to remove an objection as soon as it comes up, then there is no hesitancy on your part.

Let's say you are out making a canvass and your client says to you, "Nope, I'm sorry, but I'm not a bit interested in a mutual fund type of investment, because I don't like the open end feature," and let's say that you are a type of salesman who sells all kinds of investments.

Unless you knew exactly how to remove that objection, you would flounder around a little bit. You wouldn't know exactly how to treat this situation, and the longer you hesitate and waver and wait the more he feels that he has an important point.

He says to himself, "Ah, I've hit something strong there. That counts." And the longer you hesitate the tougher it will be to remove that objection.

On the other hand, if you could come right back at him and say, "Why, Mr. Brown, I'm surprised that you say such a thing. It's the open end type of mutual fund which—," and then you go right ahead with your rebuttal, you see?

You come right back at the man with the attitude that you're astounded that he ever brought that objection up, and you knock it out, right away. He will then be more inclined to say to himself, "Well, for Heaven's sake, who ever told me that!" and drop the argument right away.

We are discussing how to handle objections. The second reason why you should be able and prepared to meet these objections in advance is that if you give the right answer right away, and knock the objection out, that builds up a confidence in the interview.

And another thing, if you know in advance what objections you are going to meet with, and you know how to take care of them, then your mind will be more free to go on with your normal solicitation.

Certainly, if a man hits you with something very hard and you get stuck and don't know how to answer it, then your mind is fully occupied right there on one little point and you are all ripped apart on that. You might, somehow, flounder through and get that objection removed, but you have worked so hard at it that coming back out of it, you have kind of lost your sense of direction.

On the other hand, if you knew how to handle the matter, and you knock the objection out quickly, then your mind is free for the rest of your solicitation work.

Another reason is this, that if you give a quick response to an objection and get it out of the way fast, you don't lose control of the interview. But if a pretty heavy objection comes up and you fail to handle it correctly, then the other fellow has control of the interview and of you, and pretty soon you are walking out of the door without making a sale.

Advance Preparation for Objections

You might ask, "How can I be prepared in advance on these objections? I don't know what is going to come up." But you should know what is coming up. After you have been working at selling investments for a while you will recognize that you meet certain common objections, certain objections that are general in your field, or in your particular city or sales territory. Those general objections are the ones that you should be all ready on and have answers right at the tip of your tongue, to take them out quickly.

When an objection comes up, I would advise that you let your client state it fully, too. Let him get it out of his system. If you allow him to discuss it fully, maybe that, in itself, will help to remove some of the objection. It's just some little pent-up business he had inside him that he wanted to squeak about, a little, and after he talks for a while you just make some very light remark about it and he has talked himself out of the objection.

The other reason to let him state the objection fully is so that you can understand it. If you don't know the objection, what it is, fully, you certainly do not know how to remove it.

He came bristling up with some definite reason why he is not going to buy what you have to sell, and you listen to him long enough to find out exactly what this adverse reason is, and then when you know what it is all about you will know how to attack it.

There is one point of caution here. After he has established his objection fully, and after you understand what it is, don't let him continue to talk about it. The longer he dwells upon that, the deeper down he is going to dig himself into a pit of martyrdom about that one objection. Even if you have to interrupt him, and ordinarily I don't advise a salesman to interrupt a customer, but in this instance I do advise that you interrupt him and start in on the positive end, in removing that objection.

That is readily understandable. If anybody has a beef, the longer he talks about it the greater that beef becomes in his mind, so that if you let him fiddle around with it too long, you are never going to talk him out of it.

So, remove it quickly and get back to the track, and as soon as you remove an objection, get going on the rest of your solicitation. Get going on something else. Turn his mind away from the negative business of bringing up objections, and get back on your regular canvass, your regular sales story.

If you do a really good job in removing an objection, you have established a mutual agreement between the two of you. Sometimes, an objection is bothering a man and he wants it removed just as much as you want it removed.

You may try to recall something that you, yourself, desire to buy. You dearly want it, but because of some particular reason, you can not have it. Now, if some smart salesman approached you and showed you some way that that objection could be removed, and you could buy what you wanted, then you would feel pretty happy about the situation and about the salesman, too, because he has done you a good turn, so that an objection that is brought up and presented really offers the salesman an opportunity to gain the confidence and get in stronger with his customer, if he handles it right, because he has then done the man a favor by showing him a way to go ahead and buy this item.

"Never Argue"

I have to mention one point here which we have discussed before. When objections come up, never argue. I do not mean that you should try to remove objections to the point of intensity in conversation where you are arguing with a man. Don't do that.

Another thing not to do. Watch your own delivery, that you don't put objections into the prospect's mind, yourself. That happens often. The salesman will go rambling on and on and all of a sudden he will say something that a customer will pick up and say, "Yes, that's the reason I'm not buying from you, just what you said a minute ago."

In that case, the salesman is digging his own grave. So be careful that what you say never puts an objection into the fellow you are talking with.

One other very fine point on this subject of objections is that an objection can be turned into a selling point, and here is why: If a person is concerned enough about a particular reason why he can't buy your proposition to come out verbally and make a statement about it, then it means that he is quite concerned about that one particular point.

Now, if you can clear his mind up on that point and satisfy him that as far as what you are selling is concerned the objection doesn't apply at all, then that point, in itself, can be used as a reason why he should buy your proposal.

I simply mean that if a person is bothered enough about one feature to start complaining about it, then if you show him that what you offer takes care of that feature to his own advantage, he might turn around and buy from you just because of that reason.

The "Brush Off"

All right, now the brush-off type of objection.

To understand why the brush-off—in the first place, you are there to disturb his circumstances in getting him interested in something he is not normally interested in, and he doesn't have the mental ambition to cope with that subject that moment, and he wants to get rid of you quickly, so he tries to brush you off.

Then, another reason is that there is the ever underlying threat of your removing his money from him, and he is not quite sure that what he is going to get back in return will be a satisfactory exchange.

That is true not only in the investment field but in any field of selling. Now, a salesman should not accept the brush-off, because the reason behind the brush-off

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Getting Your Customer's Appreciation

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indicates a desire for a static position.

The man doesn't want to buy anything, doesn't want to change anything, wants to go along the way he always has. Now, if salesmen didn't overcome that inertia on the part of the public, there would be less progress in the world, and therefore, for the good of your own pocketbook and for the advancement of your industry, all salesmen must turn aside the brush-off objections.

How do you do it? If it isn't too vehement, ignore it entirely and go right on talking. If you have ever met with that circumstance you know it can be done. You will enter the office, introduce yourself, get all the way over to the prospect's desk and start talking and he will say something like, "Well, nice to have you over and everything, but I really don't have the time and I'm not interested in what you have to sell."

Don't listen to him. Just keep right on plowing ahead. I said do that if he is not too vehement. If he is more vehement about it, then you are down to dealing with the matter of your own abilities, but you must stay with him. You might look him right in the eye and say, "How can you expect to be interested in what I'm selling, because you don't know anything about it yet. At least, let me tell you something about it."

Well, if he is going to kick you out, you might as well make that final effort. As I said before, you might as well get kicked out as kissed out of the door, because the end result is just the same.

A lot of people kind of brush you off by turning away and trying to interest themselves in something else. In that case you just keep right on going. You don't become embarrassed. Nothing embarrasses a salesman, not a thing. Pride? You don't have any. You stay right there with him, sit right down, not the slightest intention of leaving. You are there to talk about investments, and you are going to talk about investments.

Well, again, he may have every right to stall. There may be a legitimate reason for not wanting to discuss your proposal at that time. You must find out if there is a legitimate reason or not. If there is a legitimate reason, try to remove it at that time. If you can't remove it, come back sometime when that stall type of objection may not exist. There are loads of reasons why people cannot be interested just at a given time in what you have to offer, and they may stall you off, and there may be quite a legitimate reason why they should stall you off for a month or two months or something like that, but don't give them up. Put it right down there on your prospect card.

"Well, Mr. Jones, I'm sorry that we can't go into this today, but I would like to come back, if I may. Let me come in and see you before Thanksgiving. Is that all right with you? Say, November 25th? May I come back at that time, because I really have something that I would like to tell you."

He seems a little bit glad to get rid of you then, so he will say, "All right, come back at that time." So you are in again on November 25th, but if he has some kind of a stall, "Well, I can't do it at this time," find out what it is and try to kick that objection out.

Now, the information-seeking objection. This often comes up when a person doesn't know enough about a point. He'll say, "Oh, I don't like that hydromatic drive business on the new cars." He may say that simply because he knows nothing about it. He wants to find out. He wants you to tell him that it's okay. All he wants is a little information about it.

Or, he may say, "Well, I don't think I like the oil industry right now. I don't think I should commit myself on those stocks." All he wants you to do is tell him something about the oil industry.

Recognize that kind of an objection, because that's a helper. It doesn't hinder you at all, it is just a helper.

The next kind of a reason is the valid reason. A valid reason is usually a selective type of objection, where he doesn't necessarily not want to be in the market at all but he doesn't want to be in with you, or with your house, or in on your particular offering at that time.

"Agree, Then Refute"

A valid objection, when he brings it up, and you judge it to be that, you agree with him and say, "Yes, we recognize that point, and you are very wise to bring it up. In fact, I'm glad you brought it up because—," and then you quickly try to knock it out. Agree, then refute. Agree and remove.

Don't look down your long nose spitefully at anybody who brings up a valid objection. There are many of them in every line of business. Agree with him, and then take the objection out and say that, as far as your particular offering is concerned, that objection does not hold true—"And I'll tell you why—," and then you go ahead and in removing that objection, convince him that not only is your house able to take care of that particular feature that he objected to, but because you are able to take care of that feature it is all the more reason why he should do business with you.

The insurmountable objection, well, of course, sometimes we salesmen don't often admit it but sometimes a real objection comes up. If the man just doesn't have any money, for instance, how is he going to buy anything? Or, if there is some other particular reason, recognize that. Nobody can sell to everybody. When you come up against a stone wall, just admit it. That is not admitting defeat but just using a little common sense.

Now, a very few quick points here. If you knock out the first objection, you have discouraged him from bringing up any more. But if you flounder around and get beaten badly on the first objection, you are going to get a stringing, all the way down the line.

That is why I say know what these common objections are and as soon as they come up hit them and take them right out of the picture, because then he will figure, "Well, I guess this fellow is all right. He knows his business. He certainly taught me something on that point," and he may follow with, "These other little things that I'm worrying about, I guess I'll forget about them."

But if he gets you on the first one, he will be coming right back at you again.

Sometimes you get a very vague objection. Don't try to answer it until you know what it is. Pin it down to something specific. Then you can remove it. But if it is just an all-over general, vague objection, then it is something he can just talk about forever.

If you have a very big objection, knock it down into specific points and remove them, one by one, and you will show him that you are an intelligent guy who knows what's going on in the world.

Sometimes you will get an objection that will stick. You can't remove it. But at the same time, you get the order. So, what do you care, then? In that case, allow the objection to remain, if he is still willing to give you an order. It's true that he and you are not going to agree on every point.

This is a very pithy point, here: The number of objections that you meet runs in inverse proportion to the quality of your prospecting. The better the prospecting job you do, the fewer objections you meet. The more objections you meet with, from day to day, the lower the quality of the prospecting job you are doing.

"Take the Offensive"

Don't ever allow a sales solicitation to become reduced to nothing but a series of answers to objections. If you find that you are doing that, just get out of there, for you are not going to make a sale. Take the offensive, and you do the selling. Just don't sit there and do a lot of answering.

The best way to handle the whole subject of objections is to remove the common objections, as part of the development step of your selling, before the objections are voiced by your prospect. You meet with certain common objections day in and day out, so when you go in to see Mr. Smith, one of the early things that you say to him is something that will just knock that common objection out the window, so that he wouldn't bring it up.

Your selling plan should contain a refutation of these common objections. For instance, with new prospects, you might get the objection, "I don't want to invest in the market because of what happened back in 1929, when my father lost his shirt."

Now, you might hear that from time to time as you go around, and if you meet that in any particular locality, or with any particular class of customer, continually, before they get around to that point you should say something about the conditions of today being regulated so that situation could never happen again, or whatever you are able to say that will remove this suspicion of a debacle like that.

So some of your original selling points are used to remove common objections.

If you are getting too many objections everywhere, take stock, because something is wrong somewhere. Maybe it's you. But if, everywhere you go you are met with too many objections, then maybe they are right. Be sensible about it. Something has got to change. Go back and talk to your boss and say, "Listen, I'm sick of hearing about this thing. What can we do about it? It's killing my business. Let's do something about it. Let's not just hear about this all the time. I want to make a living out there selling, so what can be done?"

If you are receiving too many objections, take the time to analyze them earnestly.

Allan W. Betts With G. H. Walker & Co.

G. H. Walker & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, announce that Allan W. Betts is now associated with them in the firm's New York Office as Sales Manager. He has been a Vice-President of Executive Research, Inc., management consultants.

During the war he served in the Air Force and was discharged with the rank of Lieutenant Colonel and was awarded the Legion of Merit.

Prior thereto Mr. Betts was connected with Shields & Co. as a security analyst for many years. He was graduated from Yale in 1932.

The Changing Economic Outlook

(Continued from page 8)

dustries has just begun to get under way.

What Is the Long-Term Outlook?

This question involves several others.

Has the bottom of the recession been seen? Since the strikes have caused such a sharp decline in total output, production indexes may already have seen their low point. However, a vigorous and sustained recovery in output can hardly get underway until cost and price readjustments have been completed. Furthermore, for those more interested in prices than in production, it seems to me that a gradual decline in the wholesale price level may continue for some time.

This would not be surprising. In most recessions the decline in prices continues much longer than the decline in production. And in the present case, Federal policies, as well as the strength of labor unions, act as sustaining factors and tend to stretch out the period of price readjustment.

Looking beyond the nearby future, we must also consider whether another period of high level prosperity—like that of 1923-29—is in prospect.

If you recall past history, the '20s were preceded like this period by an early postwar inflation of commodity prices. But unlike this period, there had then been a very drastic decline, which thoroughly eliminated price excesses, before the later period of recovery got under way.

If a similar price decline had occurred this time, I believe we would know much more about business break-even points and about the outlook for profits. I believe we would also have reached or passed a turning point in unit demand. I think that businessmen once again might be thinking of plant improvement or modernization on a large scale to further reduce production costs and stimulate demand.

However, there are other factors to be considered. The government is a much more important buyer in today's markets than it was before the war. Moreover, the foreign situation promises no early relief from tensions and crises, and it is entirely possible that we will see further major increases in defense spending in the next year or two.

A development of this sort would naturally stimulate activity in the capital goods industries and help sustain a high level of prices, income and production. But there would still be a marked difference between such a period and that of the late '20's, if we view it in terms of business profits and business prospects.

Many countries in the past 25 years have financed a defense economy. Sometimes these expenditures were represented as a cure-all for unfavorable economic conditions. Sometimes they received the support of businessmen as well as workers, who would benefit from a general improvement in economic conditions. But nearly always, before the cycle was completed, taxes and restrictions on business were increased.

Even if we were certain that a gigantic defense program was going to develop in the next year or two, we would still have to have doubts about the impact it would have on the position of most businessmen. Business indexes might seem to be duplicating their action of the late '20s, but the basic condition would be entirely different.

To What Extent Will the American Public Accept Further Government Regulation?

The phrasing of this particular question is not my own. I quote it here, however, in order to make a point.

The question seems to imply that the American public has suffered the imposition of government regulations much against its will. It implies that the opponents of such regulations, and those who see a danger in them, have only to wait until the American public rebels and casts off its yoke.

This in my opinion is wishful thinking. Let's take a few examples.

The farmer, as a first example, was supposed to be the most rugged of all individualists. When an agricultural program began under the Hoover Administration, and was continued and extended under the Roosevelt Administration, there were many people who believed that the farmer would ultimately rebel. He would take government handouts for a time, but when the government began to tell him how much he could produce, he would throw the whole program overboard.

So far, at least, these viewpoints were very wrong. Congress has just compromised — and I want you to understand that the word "compromise" is in quotation marks—on a new farm bill. It gives the farmer the same support—90% of parity on basic crops —that he had before, overruling the Aiken Amendment before it had a chance to come into effect. The Aiken amendment would have begun to reduce support prices, in the interests of the urban consumer and the taxpayer. Furthermore, the new program not only continues the inflexibility of the present one, but it actually gives higher prices for many products by introducing a new parity formula. Support prices will now be computed by two methods, and the one that gives the highest price to the farmer will be used.

If we had time, we could find many more examples of government regulations of one sort or another. And I believe that in most cases the public is not strongly in opposition. Either it derives some benefit from the regulations, or it believes that it derives this benefit.

So let's not indulge in wishful thinking about the trend of government regulation. It is not going to be reversed. On the contrary, it will extend further. And the speed of this extension will be increased:

(a) If domestic business is bad, and

(b) If international political tension continues.

Foreign Developments

Here are several questions on the foreign situation. The first one is—**How sound is the foreign economic recovery?**

Actually, the testing point has only appeared recently. There was bound to be a rebound in activity when the war ended, and when raw materials and labor could again be devoted to civilian pursuits. I find, however, first, that most foreign countries have gotten production up to a point now where supplies for the foreign market are somewhat more than ample. In other words, the world sellers' market is a thing of the past, and foreign producers, like American producers, are now operating in a competitive market.

This means that cost and prices, rather than availability of supply, have become the dominant factors—the factors that will test the soundness of the recovery to date.

As to the outcome of this test, I cannot be too optimistic. Recovery to date has been accomplished during the period in which two important former producers — Germany and Japan—

were more or less out of business. I think you can see for yourselves that both these countries, for both political and economic reasons, will probably be producing more in the next few years than they have in the past few.

Secondly, many of the plants and industries responsible for the foreign economic recovery thus far are woefully out of date. They will have difficulty in passing the test of competitive costs and prices.

There are some other adverse factors, which can better be listed under a second question — **Will European recovery stand on its own feet after ECA withdraws?**

In addition to what I have said above, there are several other reasons for doubting how well Western Europe will be able to stand on its own feet after ECA withdraws. **First,** normal trade between Eastern and Western Europe, while not entirely shut off, has been hampered by the iron curtain. **Secondly,** many Western European countries have lost most or all of their invisible sources of overseas income. **And thirdly,** the colonial position of these countries has also deteriorated.

So far as I can see, the ECA program itself made scant allowance for these basic changes in the Western economy. It set out, in short, to solve the wrong problem.

A final question deals with the political situation—**Has Russia's position been weakened by the Marshall Program?**

I would say that it quite probably has, to some extent. But I have to add quickly that I am afraid the international position of the United States has also been weakened by the natural and predictable course of developments during the last two to three years.

Our problems with Western Europe, and with Germany particularly, are just beginning. The great difficulty is in finding a solution that will not disrupt Western European unity. Or perhaps I should say, will not prevent a better degree of Western European unity being attained, because not much progress has been made so far, when the going was easiest.

We must also look at the United States' position in the Far East. Our armies still occupy Japan, but our position, in China and elsewhere, has certainly weakened substantially.

Conclusions

Let me sum up briefly.

The most important point for us to consider is the nature of the present economy. It is no longer like the economy in the twenties. Government spending and government regulation play a much bigger role.

In practical terms, government policy has fairly well demonstrated, through aid to the farmer and support of the unions, that it can prevent a collapse of prices such as occurred in 1920-21. But it seems to me that the present atmosphere may not be as stimulating and encouraging to private business as it was in the late twenties.

Let us simply say at the moment we can see no reason to fear an early major depression; that there will probably be a fairly long period of fairly high level activity; but that its foundation will be somewhat different than in the late twenties.

In the international sphere, it seems to me that the most serious difficulties still lie ahead. Despite our major expenditures since the end of the war, I am afraid that in many respects our world influence has diminished. Now that buyers' markets have come back, we are beginning to see our Western European problem in a different and far truer light. And we see it as being more difficult than we had at first supposed. We are seeing the importance of the Far East in terms of global strategy and global economics. We are nearing a point at which many types of foreign spending will probably be cut, but we have not yet developed a substitute that will encourage the flow of private capital into undeveloped areas.

As to the near-term prospect, I doubt that any further declines in production will be very large. In fact, the lows may have been seen. But I do believe that there are still some serious cost and price problems; that the trend of the general price level may continue gradually downward for some time; and that a sustained recovery in unit volume, which would carry production indexes into new high ground for the postwar period, is still some distance away.

The situation, in short, is a toughly competitive one, with no big basic changes in sight in either direction during the next few months. Beyond that, it is wiser to wait on the next Congress and on the Administration, before extending our guesses too confidently to the last half of the year.

Nominating Committee For NY Inv. Ass'n

Norman dePlanque of W. E. Hutton & Co. is Chairman of a nominating committee appointed by the executive board of the Investment Association of New York, it was announced by Stanley A. Russell, Jr. of Blyth & Co., Inc., President of the Association. Other members include William S. Goedecke of Smith, Barney & Co.; Donal P. McDonnell of McDonnell & Co.; Laurence A. Quinlivan, Jr. of Blyth & Co., Inc.; and Charles P. Stetson of J. & W. Seligman & Co. The committee will present a slate of officers to the Association membership for action at the annual meeting in December.

The Investment Association of New York was organized in 1947 as the Junior Investment Bankers and Brokers Association of New York.

$75,000,000 Loan to France by N. Y. Banks

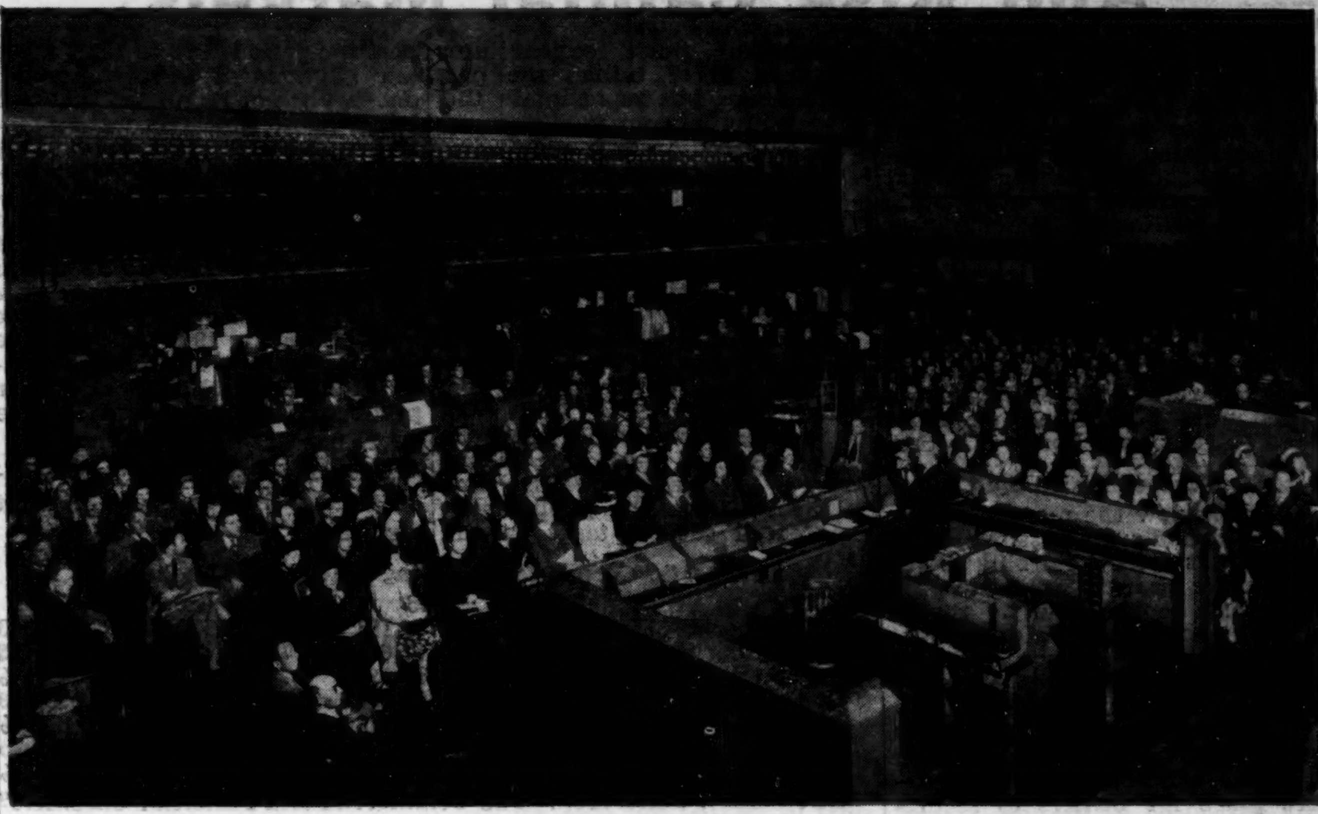
Signing of an agreement with the Republic of France for a loan of $75,000,000 was announced on Oct. 31, by the Chase National Bank of the City of New York and Guaranty Trust Co. of New York, managers of the loan. Associated in the loan as participants with the Chase and Guaranty are the National City Bank of New York; J. P. Morgan & Co. Inc.; First National Bank of New York; and the French-American Banking Corp. The Guaranty Trust Co. will act as agent for the managers in handling the operation of the loan.

The loan is secured by gold of the Banque de France deposited with the Federal Reserve Bank of New York, and has been obtained to refinance credits extended early in 1948 on the security of this gold by the Federal Reserve Bank of New York. Under the terms of the loan agreement, the Republic of France will have a call on the banking group for any part of the $75,000,000 for a period of 18 months from the date of the agreement. Each loan will be payable in three separate maturities of three years, four years and five years, the first two maturities being each for 25% of the borrowing, the last maturity being for 50%.

J. B. Fowler Director

John B. Fowler, Jr., Cohu & Co., New York City, has been elected to the boards of directors of the American Arch Company of Delaware and the American Arch Co., Inc., of New York, to fill vacancies.

San Francisco Stock Exchange in Operation



SAN FRANCISCO, CALIF. — Over 270 laymen came onto the Trading Floor of the San Francisco Stock Exchange Oct. 28 to see first hand how an auction market in stocks and bonds operates. This evening meeting, the first of its kind in the history of the Exchange, was held in response to the many requests received during the Exchange's Lecture Series on Investments recently held at the High School of Commerce in cooperation with the Adult Educational Program of the San Francisco Public School System.

Ronald E. Kaehler, President of the Exchange, opened the program with a general description of the various instruments of trading which surrounded the audience, including stocks as shown on the blackboards. Member Firms' booths, tickers, specialists' posts and time clocks. To demonstrate for the audience just how purchases and sales take place on the Exchange, the bell was rung to open a mock trading session. Mr. Ralph Van der Naillen and Mr. Frank M. Dunn, of Douglass, Van der Naillen & Co., Inc., Members of the Exchange, assisted by representatives of the Exchange staff, carried through hypothetical transactions complete with bidding, recording of a sale and an entry on the blackboard.

Each member of the audience received a booklet describing the Exchange's operations as well as a Daily Quotation Sheet showing Friday's business and sections of the ticker tape. The latter two enabled them to see the day's transactions in print.

A question period closed the meeting. This extra session of the Exchange's Lecture Series served to highlight the public interest in investments in stocks and bonds evidenced in the program from its inception on Sept. 23.

Devaluations, Our Tax Structure, And Risk Capital Markets

(Continued from page 4)

tated by common sense and self-interest, the plan to act as a creditor. Why don't we call in our industrial engineers, have them prepare blueprints for the super-highways of 1975 to be operated as self-liquidating toll roads, blueprints for tunneling rivers and undergrounding communications for national defense, for electrifying railroads, for countless income-producing capital assets, plan to get those assets of 1975 right now? Our government could then take the initial step. It could make huge purchases from d e b t o r countries, particularly Britain, keeping the materials out of our domestic commercial markets, placing them in these new enterprises and putting millions of our own men to work. With our imports once exceeding our exports, Europe would get dollars to buy from us. Our imports and our exports would then rise together, producing greater employment and rising living standards both here and abroad. Some of our gold hoard at Fort Knox might move back to other countries to again become useful as a base for their currencies. Above all, we would recover natural resources that already show signs of depletion. We are entitled to those resources — we have been delivering them overseas for 250 years.

In the process we should not cut back our own production nor immediately lower our tariffs. We should become greater consumers; we should consume the major part of our own production plus part of the production of debtor countries. That would mean greater commerce. Government treasuries, particularly the U. S. Treasury, could then collect greater revenues to reduce national debts. With greater consumption and with Europe supplied with dollars to buy from us, do you think for a minute there would not be a greater demand for textile goods? Do you think for a minute there would not be a greater market for capital goods as well as commodities? Think it through. Shall we try such a plan, or will we wait as in the past until foreign products at cheap prices disturb our domestic price structure and then retaliate by devaluing our own currency? Think what the latter would mean to savings, life insurance, pensions and wages.

Some will say this plan is impractical, that European countries have no goods to deliver. Certainly they don't have the goods ready and waiting. But — let's place the orders and give them time. With profitable orders in hand men will spring to their work with hope and enthusiasm; they will live in tents and be happy. Suppose our postwar advances to Britain had been limited to providing relief and tools for production. Suppose along with the advances we had placed orders for goods directly with British manufacturers. Don't you think managements and labor would have gone to work with hope? We forget that we were once a poor, undeveloped country without tools, that somehow we found it possible to produce an exportable surplus of goods.

The British were magnificent partners—they held the line until we could make up our minds. Surely such a valiant people must have gone along on nationalization of industry and socialism simply because they were worn, bewildered and without hope. We might have supplied hope. Instead we supplied advances to a government dedicated to socialism. These advances assumed the nature of a dole, and naturally the British people shivered along wondering how long before it would run out. We pursued this policy when we had just won a war for the acknowledged purpose of saving Europe for democracy. For what will we be saving Europe next time?

In the meantime we have become dependent upon our great reservoir in Washington. Cotton, wheat and other commodities are pegged. U. S. Government bonds have been pegged and our money market controlled. Housing for American citizens is controlled. Countless other controls exist. Pressure groups visit Washington to tap the reservoir and seek favors. We have seen our government grow to such size that no men or group of men have the capacity to coordinate and manage it.

How do we accomplish this pegging and controlling? Partly by tax money from every consumer, but most important by a device called deficit financing. By that process we forever grind out more money, thereby cheapening money, bringing higher prices for food and clothing, impairing savings, life insurance and wages of American workers.

To maintain the Washington reservoir a tax structure has grown upon us that is causing disorder throughout the land and that is not raising the revenues needed by the U. S. Treasury. We see able men retiring, some selling their businesses to tax-free foundations, others to larger concerns. We see tax evasions run-

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Devaluations, Our Tax Structure, And Risk Capital Markets

(Continued from page 27)

ning as high as $4 billion per year. We see individuals asking for tax-free expense accounts and tax-free pensions. We see corporations expanding debt to unsound proportions. We see our public markets failing to provide risk capital for industry.

If we are to become larger consumers and thereby attempt to restore sound moneys, free markets for goods and freedom for the individual, if we are to best serve our own national interest and the community of nations, we must first get our own house in order.

Decline of Risk Capital

Let's review the more shocking disorders and some possible remedies. It is most disturbing to see the public markets failing to provide risk capital, and by that I mean ownership capital for American industry. Failure of these markets means but one thing—under present policies the American people are failing in capacity and incentive to continue to own industry. The largest single market place for ownership securities, generally common stocks, is the New York Stock Exchange. The day-to-day volume governs the ability of the market to absorb new issues, supplying new money to industry. For more than 21 years the annual volume on that Exchange has averaged less than the volume in the year 1901 and 62% of the volume of 1932, the worst depression year in all history. We are trying to finance the Great American industry of 1949 with a public securities market the size of 1901.

Let's review the effect on recent risk capital financing. On Jan. 2, 1948, Gulf Oil Corp. common stock sold at 75¼ on the New York Stock Exchange. Shortly thereafter it became known that the company would sell 2,269,050 shares of additional common stock. The market price of the stock promptly declined. On Feb. 10 Gulf Oil received over $55 million less for its stock than the market said it was worth on Jan. 2. The decline of this stock pulled down all the other oil stocks—this in spite of the fact that Gulf Oil and the entire oil industry were earning at the highest rates in history. The Texas Company and the Cincinnati Gas & Electric, old established companies, had similar experiences. In January, 1949, the Bethlehem Steel Corp. did successful common stock financing, but the company received some $20,314,000 less than book value for it, meaning that every share of old stock was diluted.

The American Telephone & Telegraph Co., whose common shares are widely owned by trust accounts, small investors and employees, was faced with urgent expansion to meet public necessity. It had to increase the debt of its system from about $1,200,000,000 to about $3,825,000,000, an increase of $2,625,000,000 or 219% in the past eight years. The system debt is now about 53% of invested capital, uncomfortably high. To complete their program and to bring the debt ratio of the system back to the former 33⅓% of invested capital would require some $2,083,000,000 of risk capital, nearly four times the amount of risk capital raised by all of American industry in 1948 and approximately $124 million more than was raised by all American industry in the past three years.

Let's examine the potential demand on the public markets for risk capital in the future. Able economists state that with our unprecedented national debt American industry must spend $21 billion per year for capital expenditure for the next four or five years to keep us out of a major depression. Such expenditures averaged $17½ billion the past three years, but to maintain this pace represents an immense undertaking by American industry. In 1938 capital expenditures were not $21 billion, they were $4.7 billion; in the boom year 1929, $12.5 billion; in depression year 1932, $1.2 billion.

How can this $21 billion per year be raised? Economists say that some $14 billion can come from the inside, that is, from earnings and reserves for depreciation, that the other $7 billion must come from the public markets, that over half should be in the form of risk capital. At no time in history have the public markets faced such a task. In the postwar period 1922 to 1927, when our government debt was about one-twelfth of its present size and when public markets were functioning in orderly fashion, only $1.8 billion per year were received by the sale of new securities. Requirements for the next few years will be 3½ times that amount. From 1931 to 1940 less than 1/10th of $1 billion per year on balance came from the public markets. From 1941 to 1946 there was no capital on balance provided by the public markets. War production was financed by the government.

I want to give you some figures now that to me are most disturbing:

Domestic Corporate Financing — 1946-1948 Inclusive

	1946	1947	1948
New Corporate Financing	$6,508,777,181	$6,276,745,020	$5,934,456,563
Debt Securities	4,435,961,800	4,771,309,634	4,999,071,795
Per Cent of Total	68 15%	76.02%	84.24%
Common Stock	$804,387,001	$659,154,129	$495,969,673
Per Cent of Total	12.36%	10.50%	8.36%
Preferred Stocks	$1,268,428,380	$846,281,257	$439,415,095
Per Cent of Total	19.49%	13.48%	7.40%

Information taken from "The Commercial and Financial Chronicle" —Jan. 31, 1949.

In these postwar years new debt financing totals over $14 billion, common stock financing $1.9 billion. New debt is nearly 7½ times new common stock capital—this at a time when business was at an all-time high in sales and earnings. That is what our tax structure has brought. If industry is unable to finance with risk capital in good times, it never can. In the event of severe depression, the government might well have to supply additional capital to industry not in the form of loans but in the form of risk capital, meaning government ownership.

Industry in the postwar years has not been able to pay a fair percentage of earnings as dividends. In the years 1946 through 1948 about 40% of earnings was paid as dividends compared to 56% in 1929 and about 75% in 1939. Managements know that when dividends are paid out they are promptly siphoned away from the recipients in the form of taxes and unavailable to come back to corporations in the form of capital. They know that depreciation reserves at the allowable rates have not been sufficient to rebuild plants at present costs. A substantial portion of earnings after taxes has had to be used or earmarked for such purpose.

Our Money Supply Immense

The irony is that our money supply is immense. Our pump-priming and war have pumped new money into the market on a scale without precedent. Liquid savings in the hands of individuals now exceed the Federal debt. These savings have risen from $82.6 billion in 1939 to $262 billion in September, 1948, an increase of 217%. During the same period all stocks listed on the New York Stock Exchange, and representing the bulk of American industry, have risen in value from $46.5 billion to $67 billion, up only 44%. For 16 years our tax structure has prevented the man willing to take risks from saving anything to put into industry. The little man has been led to fear business. He has run for the storm-cellar, seeking safety first, placing his savings in government bonds and institutions. He wants pensions, benefits and salaries with none of the risks. The masses unwilling to risk part of their savings may find they are risking all. Our policies have caused too rapid flow of vast sums into our savings institutions and insurance companies. It is their duty to place these funds in safety-first channels. Can they continue to find safety for such vast and increasing funds? Surely if the trend continues there will be no such thing as safety for the simple reason there will not be sufficient risk capital down below to provide the safety. Some government officials now advocate liberalizing the laws so insurance companies can put more into risk securities. If that starts, how long will insurance continue to be insurance? That would be another unsound move to bolster an already unsound and unnecessary economy. In the meantime these huge liquid savings in the hands of individuals are a powder-keg. Should the holders once fear the cheapening dollar, there could be a stampede to get into some form of property that could blow the roof off.

The proportion of national income distributed as pensions and other forms of relief has increased from 1½% in 1929 to 5% at present. Such distributions now run at some $11 billion per year, nearly 1½ times all dividends paid by all American corporations in 1948. Such benefits sound fine, provided industry can carry the burden. In the past, industry has been able to raise man-hour output some 2% per year; now it appears they will have to raise it some 3 or 4% per year. Possibly they can, but it will require huge amounts of new equipment requiring billions of risk capital. In the meantime we see our best men unwilling to take bigger jobs, simply because they have participations in pension trusts and because increased salaries mean nothing after taxes.

This goes on at a time when the American people face the greatest opportunities and responsibilities in history. No half-way effort will ever take care of our commitments. It will require supreme effort, supreme willingness to take risks and a supreme desire to own and finance American industry. It will require private ownership and free enterprise working at their best.

Tax Remedies

What are the tax remedies? First, the maximum surtax on individuals should be limited to 50%. According to reliable Washington sources, such limitation applied to the 1949 calendar year would take about $420 million out of the U. S. Treasury, slightly over 1% of total revenues and slightly over 1/10th of one year's tax evasions. There are only some 500,000 corporate tax returns, but some 3,700,000 tax returns of unincorporated businesses, partnerships and proprietorships. These little businesses ever trying to get big have proved the backbone of our country. These little businesses would again have capacity and incentive to build out of earnings. At the close of World War I the maximum individual rate was 77%; in 1920 it was lowered to 73%; in 1922 to 58%; in 1926 to 25%. From 1922 on, the result was increased incentive with increasing profits to business and individuals and increasing revenues to the U. S. Treasury. Here is the experience that brought increased revenues to the Treasury.

Second, a word about the capital gains tax. In March, 1942, tax experts from many countries of the world appeared before our Ways and Means Committee. They testified that such tax had proved too uncertain as a revenue-producer but quite positively a serious deterrent to business, that those countries that had tried it had abandoned it. In the face of this, according to able tax counsel, the United States is the only country in the world today that has a capital gains tax. If we must retain the tax, our treatment of capital gains and losses should be revised, reducing the rate to 20%, resulting in a tax of 10% on the gain, and increasing to $5,000 the amount by which capital losses can be offset each year against ordinary income. Most important, the holding period should be reduced to three months. These changes would open up risk capital markets for industry and produce greater revenues to the U. S. Treasury. Our present capital gains tax brings insignificant revenue—for 11 years an average of $155 million per year, about 4/10ths of 1% of present Federal revenues — yet this tax is having a decided effect on the national economy. Property cannot be sold at a profit to go into new business, because 25% of the profit goes in capital gains tax, meaning the new business must be 25% better from the start. Picture the man who started with nothing but the will to work, sweat and risk, and finally builds a great business. Today he wants less risk. He is willing to transfer ownership to younger men. He is prohibited because such a simple transfer may take nearly 25% of the entire principal. Even if he could, younger men taking over would have little hope of ever paying for it out of earned income after taxes. The usual result is, he merges the business wtih some larger concern. The big get bigger and the small get smaller. Picture the housewife who bought a home for $10,000 in a nice neighborhood. The neighborhood changes with the encroachments of business. She changes her mind about the neighborhood, sells the home for $25,000, moves to another locality, paying $25,000 for her new home. In the meantime she has incurred a tax of $3,750 for changing her mind. You know that any law is utterly unsound that places a tax on a woman for changing her mind!

Third, a start should be made to eliminate the unjust double taxation of corporate earnings by allowing individuals to take a credit equal to 10% of their dividends on common stocks in computing their income tax liability. According to the Washington source, such credit applied to the 1949 calendar year would take only $560 million out of the Treasury. Income from interest, rents and royalties is taxed but once, but corporate earnings are taxed twice. It is interesting to note that under current dividend policies and double taxation, for each $100 earned by a corporation before taxes, the stockholder in a high tax bracket keeps as little as $4.99, out of which State income and ad valorem taxes must be paid. Such stockholders want to get out of industry, not into it.

Fourth, corporations should be permitted to charge depreciation at a rate sufficient to amortize the economic life of plant and equipment at present replacement costs. Managements would then be encouraged to make capital expenditures.

These suggestions involve a small part of total revenues. They can be accomplished simply and quickly. The initial losses would be made up immediately and still greater revenues would result. Men would again take risks and dispose of risks, knowing that they could keep at least one-half of any dollar they made. American citizens would again have incentive to own and finance American industry.

Proposed Program

What can you and I do? We can do plenty by visiting with our Senators and Congressmen. They are our chosen representatives. They have the power. It is my observation that they are generally men of character who want to do a good job and are trying to do a good job. They are not experts in all fields. They need help. However, we must first learn our own lesson, know what we want, be prepared to talk plain, simple language. My program is as follows:

(1) Get our own house in order; provide a tax structure that will let our system work at its best, bringing increased revenues to the Treasury. (2) Try to reverse our trade balance, try to restore sound moneys and try to stop the world-wide race to devalue. (3) Shrink the size of our government to the point it can be at least coordinated and efficiently and economically managed.

With such a program, it is my firm opinion that we will start on a period of unprecedented prosperity that will spread throughout the world. That is the best insurance for peace. People will have neither time nor desire for war.

In the first 75 years of the history of this country, our best brains went into government and they produced the finest form of government the world ever saw, not perfect, not a true democracy. Perhaps it is a mistake to speak of democracy as a form of government. Perhaps democracy is an education, a faith, an ideal. We may strive for it all through the ages and never attain it, but God help the country that does not have the right to hope for it. In the last 75 years our best brains went into business and they produced the finest business the world ever saw. We have a private-ownership free-enterprise system that won two world wars, brought the highest living standard and provided world relief and rehabilitation on a scale never known. Shall we, the people, demand policies that will preserve and continue to improve these blessings?

Our disregard of simple economic truths has led us down a path we neither wanted nor bargained for; it has kept our people in quandary, turmoil and doubt. It has led our people to fear free enterprise, to fear the taking of risks, to fear business and even government, to fear the things that made us great. We still believe in them, but we fear them. A few more years could provide a generation that would cease to believe in them. Throughout all history great empires have fallen because they ceased to believe in the things that made them great. They created vast quantities of money and followed unsound policies. Rome was great, but Rome fell. The Byzantine Empire, the Spanish Empire, Ancient Athens were all great, but they fell and they never came back. Will we go the same route? Time for decision, and it may be later than we think.

What's Coming in Television?

(Continued from page 7)

spectrum in what we now call the ultra high frequencies or UFH region. The Commission at that time urged the radio industry to study these ultra high frequencies as a means of preparing for commercial operation therein. It was at this time that FCC set aside for television the UHF region from 475 to 890 megacycles.

This warning given by the Federal Communications Commission to the radio industry was borne out ahead of schedule. It became evident more than two years ago that television would require many additional channels, and that these would have to be assigned in the ultra high frequencies.

Unfortunately, this warning fell upon too many deaf ears, and the industry as a whole continued to act as if television would never occupy these new channels. If I may talk about my own company for a minute, I will, to use a politician's phrase, point with pride to the fact that Zenith designed all its television receivers so that they could receive both the 12 existing VHF channels and the coming ultra high frequency channels. This fact, incidentally, is very important to you gentlemen, because Kansas City seems destined to have one of the first commercial UHF stations to go on the air in the United States.

A few months ago FCC announced a proposed new allocation plan which would redistribute assignments in the present VHF channels to prevent the growth of interference and which would open to commercial operation 42 new channels in the UHF region. This proposed order to increase the number of television channels from 12 to 54 is one major subject on the agenda of hearings now being held in Washington by the Commission. These hearings are also considering another explosive subject — color television.

Color Television

For the past years we have all been hearing about this subject, and I receive letters every day from people who want to know "When will we have color television?" Gentlemen, I can assure you that today there is no answer to that question. Three systems of color have been proposed and discussed before the Commission, but nobody is happy.

One of these proposed color systems employs revolving mechanical discs. To produce a 16-inch direct view picture, this system would require a 36-inch revolving disc. Black and white television started more than 20 years ago with revolving discs, but got precisely nowhere until an all-electronic system was found which eliminated these revolving discs. I do not believe that, in color television, we are going to take a step backward to the revolving mechanical discs of yesteryear.

The radio industry as a whole, as represented by the Radio Manufacturers' Association which comprises virtually all important radionic producers, cannot agree upon standards for color television. One major problem is the fact that if we once adopt a system and get it going, we are stuck with it. Costs are so great and public investment becomes such an important consideration that any later change in well-established standards becomes almost impossible.

Consider, for example, the confusion that would result if it were decided to widen the standard gauge on our railroads, a change for which there are many sound engineering reasons. That would be an economic catastrophe. Nevertheless, it is a change which would be extremely simple in comparison to changing television.

Radio Manufacturers' Association has taken the position that a color system must be one which is really compatible. By that they mean a system with which any of the millions of receivers now owned by the public can receive at least a good black and white picture from color broadcasts, and that in addition can be converted at moderate costs to receive color transmissions. A color system that does not meet these requirements would obsolete all existing receivers when it finally became established, and its road toward establishment would be one of pain and sorrow, with red the principal color showing—a fact which is verified by the buckets of red ink going on the books of television stations operating today.

It would be rash to even guess at a timetable for the coming of color television. Suppose there were in existence a system which authorities agreed both the public and the industry could live with for many years. That situation, of course, does not exist today. But if we had such a system the time before it could go into general service would extend for months and years. It would have to be field tested throughout the country. Then would come the long, tedious process of designing and manufacturing commercial color transmitters, and the equally complex job of developing and building color receivers at a price within the public's purse. How long this would take, nobody knows, but I can assure you, gentlemen of one thing. Anybody who purchases a good black and white television receiver today which is capable of receiving new UHF channels will get his money's worth.

There is a great deal of comment and speculation about the cost of color receivers, with reckless statements bouncing back and forth about the receivers and converters that can be manufactured. Gentlemen, nobody, anywhere, knows what these receivers will cost in mass production, but I can give you some concrete facts from our own experience. Ten years ago Zenith built a number of color receivers which, with a revolving mechanical disc in front of the tube, would reproduce color pictures sent to the mover a telephone wire. The cost of these sets was incalculable, because they are part of our engineering research with no separate cost accounting. However, early this year we did build 20 color receivers for the Columbia Broadcasting System. These are the receivers which have been much publicized in recent months through their use in demonstrating surgical techniques. Bear in mind that they were not complete television receivers. They had no tuners. They reproduced only what was fed into them over a telephone wire.

We contracted to build those receivers for $1,000 each and did build and deliver them for that price. However, when we got our costs together we found that we had suffered a net loss of $15,400 on the order. Those 22 color receivers, which differed very little from the ones we had built in our laboratory years earlier, cost us $1,700 each to manufacture.

I have discussed this problem with our engineers and cost accountants, and frankly, gentlemen, we can't even hazard a guess at what the retail price would have to be on complete color television receivers built for use by the public.

Public Effects

Now let's consider television from where you and I sit as members of the great consuming public. I have had it in my home for the past 10 years, and in recent years I have seen what it has done to me and my family repeated again and again in the homes of friends who purchased television.

Make no mistake about this fact —television is going to change your way of living. You may not believe it but the day you install a television receiver you sign away an average of from 3 to 20 hours a week that you formerly devoted to other things. In spite of inadequate programs and the failure of television to present some of the things you most want to see, you will find yourself staying in after dinner to watch those moving pictures. Some of you will delight in the best theatrical entertainment television has yet offered — namely the phoney wrestling matches. Sport lovers will watch football, baseball, basketball with a pleasure that they never received from radio broadcasts. In fact, many sport fans have reached the point where they prefer to watch their favorite events over television rather than in the actual audience at the stadium.

This fascination of television is already taking place in millions of homes. It has cut down on movie attendance, reduced radio listening, and made fewer the number of hours that people can spend outside their homes. What Henry Ford did by taking people out of their homes and putting them on the highways, television promises to undo by letting them stay in their living rooms and peer through a porthole at the world around them.

Trend of Prices

I am often asked about the trend in receivers, prices, etc. As I said before, the industry has come a long way in three short years—far enough so that some general conclusions are justified. Quality of receivers has been greatly improved, and there has been a steady trend toward larger pictures. Prices have stabilized, and the day is just about past when people will pay fantastic prices for poorly made and poorly performing equipment.

In fact, the day has past when loft manufacturers can find the radio industry a profitable home. FM and television, which require research and scientists of the highest caliber and which require delicate, precision manufacture, unknown in the old days of radio, have changed the character of our business entirely. There was a time when a man with a soldering iron and a pair of pliers could buy a few parts and assemble them into a satisfactory radio set. Today an investment of many millions is required to achieve volume production of quality merchandise. This is all to the good, of course, because it insures better quality and better value for the public, and minimizes the risk of purchasing orphans.

I have no doubt that an acceptable solution will be found for the technical problems presented by melting the freeze on the present 12 VHF channels, opening the 42 new UHF channels, and bringing about an orderly development of color. But there still remains one problem which is of extreme importance to the entire industry. That problem is the economic one of presenting fine programs, not now available to television, and of enabling television stations to operate at a profit.

The biggest worm in television's apple is programming, with its production headaches and high costs. It seems apparent to me that the only feasible solution to this problem is to put television entertainment, as well as television commercials, on motion picture film. I believe that the great majority of material to be televised in the future will be from film.

Most people forget that what a viewer actually sees on the television screen in his own home is in fact, a motion picture, whether it originates in the studio as a live broadcast or from a piece of film. Consequently, television will be judged by motion picture standards, and will be forced to the same techniques and skills that have made movies our greatest medium of visual education and entertainment.

Movie makers frequently spend millions on the screen version of a play that could be produced for a few thousand dollars if filmed directly from the stage production. Television will require production of the same caliber, which means it must employ the know-how and skills of Hollywood.

An Economic Monstrosity

Television today is an economic monstrosity. Its popularity is spectacular and it has already proved a dangerous competitor to the motion picture industry and to others. Yet, it is causing enormous losses for broadcasters and has found no way to pay for the really high caliber, costly entertainment provided by Hollywood.

In the past the barrier to television's use of Hollywood movies has been economic—advertisers cannot afford the terrific production costs that make good movies what they are.

Without films, even a bigger share of the advertisers' money is not the answer. Most advertisers' appropriations, for a whole year, couldn't buy a week's supply of the great entertainment now reposing in Hollywood's film cans

But there is an answer. Give television the quality films produced by Hollywood, AND, *give television a box office!* Let the public pay for better entertainment.

Set owners in five different television areas said they would willingly pay for first-run movies and other costly programs.

Replies to a survey of nearly 10,000 set owners conducted by LaSalle Extension University indicated that in Pennsylvania 49% would pay to see Hollywood movies on television; in New Jersey, 52%; in New York, 64%; in Chicago, 70%, and in Connecticut 76%.

And in Los Angeles, another survey conducted by Television Research showed that 73% would gladly pay to see first-class movies in their homes.

A few months ago Zenith conducted a post card survey in 25 different American cities, in which we asked,

"Would you pay $1 per picture for you and your family and friends to see first-run movies in *your home*, on television with telephone wires?"

On the cards returned, more than 83% voted yes to this question. There is no question at all about it—if we give television a box office, then television and Hollywood together can give the public what it wants.

Phonevision

Our company has come up with Phonevision as a method of providing the necessary box office The principle of Phonevision is very simple.

When a transmitter is presenting entertainment for which the public is to pay, it broadcasts only 99% of the picture over the air. This picture is garbled and blurred and is what will be seen on every television receiver not equipped for Phonevision.

The remaining 1% is the key signal that will clear up the picture and make it just as perfect as a standard television transmission. It will reach the subscriber's home over his telephone wire. In order to get this service and see the feature, the subscriber must call the Phonevision operator to get his line plugged into the Phonevision signal.

Phonevision signals don't interfere with the phone itself. They are stopped by a filter arrangement that keeps them from getting into the telephone, and that prevents telephone conversation from getting into the television transmitter. Consequently, it is possible to use the telephone at the same time that your television receiver is receiving a new motion picture by Phonevision.

For this service a fee of perhaps $1 a movie will be charged. From this charge of $1 per picture per home will come sufficient revenue to pay Hollywood for its costly productions plus additional revenue for the telephone line service and for the television transmitter. The broadcaster's income from the Phonevision presentation of new movies will be far greater than the sale of the same amount of time to advertisers. This will mean, at long last, profitable operation for television broadcasters.

Phonevision, bringing the top-flight visual entertainment that people demand, will expand set sales into many millions.

Present television stations, and those scheduled to go on the air, are in urban, highly populated areas. Not only will the number of set owners in *present* television areas increase, but Phonevision will *create* audiences in areas that otherwise would have had no hopes of receiving television. There are hundreds of towns throughout America that already support one or two local radio stations. But even the smallest television station means an outlay far beyond the resources of the average small town. With Phonevision available, new stations can profitably cover the country. They can tie-in to network shows, both sponsored and Phonevision. They can provide local Phonevision showings of quality motion pictures or local sporting events—and they can tie-in for these events on national networks.

Phonevision will not replace television, but will be an added service, just as phonograph records on a radio-phonograph combination are an added service. The same transmitter will operate both pay-as-you-see Phonevision and advertising sponsored television at staggered hours. The same television sets will receive Phonevision for which the owner is billed, and advertising sponsored television programs as we know them today. When color comes, as it will some day, Phonevision will operate just as well with it as with present monochrome.

Phonevision will cause the sale of many millions of television receivers with, ultimately, national coverage comparable to that known today for radio. It will provide for motion picture producers a gigantic new audience from the more than 65,000,000 people who could go to movies but who seldom or never do.

There are more than 25,000,000 home phones in use today, and the number is growing rapidly. This assures wide coverage by Phonevision.

The paradox of Phonevision is that it can deliver first-rate movies to the home at one-third of the price now paid by the public and still give the producer twice as much revenue per person as he now receives.

Within a few years virtually all of television's entertainment will originate as motion pictures. The demand for new top-quality films will exceed any yet experienced. The revenues produced by television-Phonevision will bring a new period of prosperity to the motion picture producer. Phonevision will make television the greatest entertainment and advertising medium the world has ever known.

As We See It

(Continued from first page)

of the type of programs which the party in power has been developing and putting into effect. We have no doubt at all that such a change in "sentiment" in the electorate would be quickly reflected in public policy.

It Can't Be Done

But however all this may be, the fact remains that no way exists by which it is possible to patch up socialism, communism or any of the other "isms" which at bottom are either identical or closely similar, so that they can function as effectively as competitive, free enterprise to bring relief and comparative well-being to a people situated as are the British at the present time. It is when this fact is taken fully into account that the thoughtful observer comes to realize that steps now proposed (so far as they are known and understood on this side of the water) cannot hope to do more at most than merely to palliate the conditions by which the British people are now confronted.

If all this were confined to Britain, or even to a dozen other countries throughout the world, and did not touch our own shores or our thinking, it would scarcely be appropriate to give much space to the matter in these columns. The fact is, however, that these conditions are definitely not met. In the first place, we are still supplying other peoples, including Britain, with a great deal of the product of our labor gratis. Many of these peoples, including Britain, still cling to the idea that patched-up socialism or modified communism, or, perhaps, some form of compromise between socialism and free enterprise can accomplish successfully and even quickly the tasks which practically all of the European nations must accomplish before they can return to what they once regarded as normal. What is more, there are a good many within our own borders who continue (despite all that has occurred) to be impressed by the high-sounding generalities expressed by statist governments throughout the world, and particularly by the glib spokesmen of the British regime now in power.

Inalienable Weaknesses

It may, accordingly, be well to set down for the record some of the inalienable weaknesses of any statist or collectivist economic regime, whether it terms itself socialism, communism, fascism, or even (as is the case at times today) democracy. The first and most glaring infirmity of such regimes is that they undertake—whether consciously or not is unimportant—to sever, or at all events to weaken, the relationship between what a man has and what he produces. "From each according to his ability; to each according to his need" is the formulation of the more extreme type of this thinking. The same idea in myriads of forms is found throughout the world today.

One of several requisites of sound taxation as expounded in convincing form as long ago as Adam Smith has, for example, been employed to carry what is known as "progressivism" to such extremes that there is but little reason why a man of extraordinary ability should exert himself fully in the production of the good things of life. Again, either through legislation or governmentally supported unionism, the state has been reached in which vast numbers of men (and some women) now receive vastly more than they are willing to produce — at the expense inevitably of the others in the community who in one way or another receive less than they produce.

Evil Is Compounded

This evil is often compounded several times over by procedures or programs devised for the purpose of either concealing its effects or presumably of curing them. Thus, in this country we have recurring talk of "incentive" taxation and many similar programs by which the tinkerers in Washington think they can replace incentives they themselves have taken away. Moreover, redistribution of income, coupled more often than not with inflationary programs of one sort or another to keep the economy going, ordinarily give rise to problems of price distortion, apparent shortages and various other ills and ailments which "must" then be cured or prevented by controls and regulation. In this way another wave of maladjustments and difficulties is brought into being.

No one has yet found, and in our judgment no one will ever find, any incentive or any regulator so powerful and so beneficial on the whole as the simple one of permitting the individual to have, to hold and to enjoy what he himself produces — and (save in cases ordinarily regarded as charity) nothing more. Such a system has brought the world to where it is today in an economic sense and if the world is to continue to progress it will be that principle which will take it forward in the future.

Vox Populi

Closely related to this divorcement of production and ownership, is a second fallacy of all forms of statism. That is the notion that somehow there resides in "the people" an element of wisdom which they as individuals do not possess. By such process of reasoning the conclusion is presently reached that by the popular ballot it is possible to select a small group of men and women who can plan and direct the economic life of a whole people or of many peoples, possibly of all peoples, with results vastly to be preferred to those which regularly flow from the ordinary processes in which each man looks after his own interests in his own way. If economic history proves anything, it is that this is a basic fallacy.

When, therefore, the news from Britain is analyzed these days it is essential to bear in mind the simple fact that nothing short of an abandonment of socialism will really bring relief to that stricken country.

Current Trends and The Business Cycle

(Continued from page 11)

grow markedly if and as rates of contribution rise (both to meet requirements under the present setup and to support probable liberalization), coverage is broadened to include workers in currently uncovered occupations and benefits are liberalized. Moreover, extension of private pension schemes will reinforce this trend since **from the built-in flexibility viewpoint at least** their operation is much the same as that of the Federal system. All in all the whole pension setup promises to constitute a significant weapon in our present arsenal of automatic compensation for business fluctuations.

(4) **Price Supports for Farm Products** — Insofar as concerns built-in flexibility, the effect of such devices—at any rate to the extent that they resemble those with which we have had experience to date in this field—is to vary government outlays (and thus, other things equal, the volume of purchasing power) inversely with business activity. When general recession hits, and demand for "supported" products slides, prices tend to move below support levels and the government steps in to counter this trend by acquiring "surpluses" directly or indirectly. As conditions improve, there is a rise in the demand for food and a shrinkage in government outlays, the latter ceasing when private consumers are prepared to take at least the current output of all "support" products at or above support levels. In practice, the stabilizing character of the policy is tempered somewhat by the fact that, resting as they do on parity formulae, the support levels are likely to move downward when prices in general are falling, and *vice versa;* but the net effect will nevertheless be positive and (under anything approximating present rules) substantial—**unless** years of prosperity happen always to be years of exceptionally good crops, and vice-versa, which is hardly to be expected.

At this point I would like to interject some comments upon two matters relating to the price support issue that have invariably suggested themselves to me whenever I have had occasion to consider it in recent months—namely, (a) the role of the policy in the 1948-49 business picture, and (b) the general appropriateness of a system of farm product price supports.

In the fall of 1948 forward world crop prospects were such as to generate expectations that prices of most major "support" products would fall to "floor" levels (and in some cases below the latter insofar as absence of storage facilities prevented farmers from satisfying the terms for procurement loans on "surpluses"). In some quarters, this outlook was usually offered as a reason for expecting general recession in the system. In others, which foresaw the declines as resulting simply from significant jumps in supply for home use rather than weakening domestic demand, this postion was regarded with some skepticism, but the effect was dealt with as being at best not more than "neutral"—that is to say, as reflecting a shift of spending from the farms to other areas and as generating strength in the latter corresponding roughly to the weakness emerging in the farm sphere. Rarely has it been held that the net effect might be a substantial stimulus to the system as a whole. But, among a few, I suspect that to be the case. My reasons are as follows:

(1) On the average, farmers save more from a given money income than do non-farmers falling within the same income class. A shift in disposable income to the latter, therefore, will lead to a net gain in consumer spending.

(2) In ordinary circumstances, the favorable effect of No. 1 might be offset partly or in toto by farmers' tendency to reduce investment outlays more than do non-farm consumers when they suffer a loss in income (and also of course the reverse). But circumstances were not normal. Relatively speaking, the farmers were and would remain much better situated with respect to liquid asset holding and lowness of debt than were other segments of the economy. This fact, coupled with continued urgency of needs for farm equipment, construction and land development work meant that farmers' investment expenditures would be unusually insensitive to a fall of income.

(3) To the extent that farm prices threatened to sink below support levels, the Federal Government would be obligated to absorb the "surpluses" through purchase or acceptance as collateral for loans, thereby making a net addition to total purchasing power and thus total spending.

Effect of Farm Supports

Although it is not yet possible to determine exactly the total affect of these forces, sufficient data are on hand to enable us to state that matters have developed much as foreseen above. More specifically, farm investment has remained strong despite current and prospective declines in farm income, and support payments have risen very substantially. It is this second aspect, the matter of support payments, however, that is important in this connection. So long as the present type of legislation prevails, we may expect (subject to the general qualification above concerning the possibility of poor crops in depression years and good ones in good years) that a rise in support payments will occur regularly in time of recession with tempering effects.

Now a few words on the second subject, that of the appropriateness of farm product price supports. In my judgment, the sort of policy we have been pursuing during the past decade or more and threaten to pursue in the near-term future is rather unfortunate. Even if some form of income support is thought to be appropriate to alleviate the farmers' plight—and I guess that the case is arguable—the method of clipping consumers through high market prices plus government destruction of surpluses and/or crop control schemes is not very appealing. When support payments have to be made and attempts are made to raise taxes sufficiently to cover them, the consumer is had both ways directly—through high prices for his food and higher tax burden. When crop restriction obviates support payments, prices are likely to rise still higher and resources are malallocated, i.e., inducement or compulsion to shift crops into a better relationship to the pattern of demand is from farming to nonfarming, blunted. I think sometimes that we should consider seriously placing primary reliance upon so-called forward pricing systems, which entail that farmers sell at whatever prices free markets will bring and are paid subsidies by the government to offset any excess of the previously set forward prices over that established by the market. Any such plan confronts major analytical, political and administrative difficulties, but it would be much superior to present arrangements both in logic and in equity. It would contribute to short-run built-in flexibility in much the same way as does the present support program.

All this has to do only with the concept of farm support and not with the possibility or even probability of political abuse—and even the question is properly raised only as to its relative weakness in that regard as compared with any other farm plan—especially with what we have had and are now having.

In conclusion, it is safe to say, I believe, that whatever form it may take, cyclically varying income supports for farmers are here to stay as a significant part of our "mixed" economy's built-in flexibility.

Before turning to my next general subject, I would like to underline the importance of the rapid growth in the degree of our system's built-in flexibility. It will be clear of course that it has the direct effects both of narrowing markedly the swings to which any given pattern of initial changes in demand will give rise and of retarding the rates at which we approach turning points. What may not be so clear at first sight is that these effects have a very important indirect consequence. They provide policymakers with more elbow-room (and more of a breathing-space in which to use such room) to judge the strength and probably duration of the underlying movements and thus to determine whether and to what extent discretionary measures to checks or reverse such movements should be taken. This is of major significance. The more rapidly it proves "politically" necessary to take discretionary steps, the more dubious are such measures likely

to be even if there has been some preplanning. And irrespective of the character of the measures, careful analysis of developments is always necessary to insure against aggravating rather than helping matters by acting at the wrong time. Recent discussion has made clear the fact that this is a serious danger—stemming from the lag between the need for action and recognition thereof, the lag between such recognition and the taking of action, and the lag between the latter and realization of its effects. (The decisive merit of built-in flexibility of course is that in its case such lags are virtually absent. The effect is prompt. Elements therein operate like antibodies in the human system.) I would offer only one further comment here. To strengthen the case for taking the time to evaluate discretionary action, it is desirable to make sure that the public is aware of just how much stronger is our built-in flexibility than in by-gone days. Otherwise, they may easily be stampeded with the cry that another "Great Depression" is in the wings with serious results in the form of panicky and ill-favored policies.

Price Expectations

One factor receiving heavy emphasis in explanations of cumulative upward or downward movements offered during the past ten to twelve years has been price expectations. Put very crudely, the argument is that if and when prices fall off (rise) as over-all demand declines (increases) there is a tendency to postpone (accelerate) buying, with the result that the price changes, instead of operating to compensate the initial shift in activity, produce further movements in the same direction and thus aggravate matters. This development, it is held, may not occur after the first price change (i.e., this change may have partially compensating effects by stimulating buying). But if the latter does not succeed in erasing unemployment (or checking sufficiently over-all demand), a belief arises that further changes in the same direction are in the making—in economists' lingo, price expectations become increasingly elastic—and the trend becomes self-generating with spiral effects.

I entertain rather serious doubts with respect to the frequency of such relationships, favoring the view recently expressed by one well-known economist[1] that in the past really major cumulative effects of this order are found only in advanced stages of drastic inflations or deflations. Nevertheless, they may often have been effective in some degree. And insofar as this is the case, it seems probable that, owing to recent developments, we shall find their strength to be declining markedly henceforward. Of such developments and their implications, the following merit explicit mention:

(1) The rapid spread of strong union organizations and the jump in minimum wage rates combine to insure that wages in general will decline, if at all, much less and much more slowly when demand shrinks. This "downward rigidity" in turn places a strong prop under prices. (Talking now only about the possibility of cumulative decline in prices, not on the old issues of whether in the long run demand is more than correspondingly curtailed by the failures of prices to decline with it.) Insofar as consumers base their judgments concerning future cyclical price patterns on what they remember from the past (or what they are told by economists is the "truth" about the past), this will not lead to a change in buying behavior. But a few dashed expectations of quickly falling prices and growing recognition of the new wage picture should alter such behavior rapidly. Indeed, it seems to me that there is already widespread recognition of the new environment. The upshot will be to diminish markedly the strength of the perverse expectations.

(2) As shown above, present and prospective farm price support policies set sharp limits upon the permissible degree of decline in "support" products. For "support" items with respect to which postponement or acceleration of buying is convenience, therefore, the range over which expectations can become elastic with respect to downward price movements is much smaller than in prewar days.

(3) The preceding points require qualification insofar as wages and farm product price levels are dependent upon movements in other prices. In practice, however, such dependency is not very great in the case of declines. The number of wage rates depending on cost-of-living index movements, e.g., is very small, and there is usually an absolute limit beyond which further downward adjustments are not made. Broadly speaking, allowance for such influences would call for only a slight modification of the foregoing conclusions.

(4) The picture with respect to price rises is somewhat different since farm product price jumps are not subject to any celing, upward wage pressures may be expected to be greater than heretofore at any given level of employment, and formulae relating wage boosts to rises in the cost of living are usually open-ended. Indeed, I think that we may count upon expectations of rising prices in prosperity (within limits set by built-in flexibility) to be somewhat more elastic than was the case in the 'twenties. I would judge, however, than any increase here will be more than compensated by the secular decrease forecast in the case of price declines, thus tending to shrink the amplitude of swings, which is all that we are talking about.

My general conclusion is, briefly, that taking the cycle as a whole I would consider the tendency of perverse expectations to aggravate cyclical movements to be less than before the war.

Money, Other Liquid Assets and Monetary Policy

I turn now to the relationships between the size and composition of our system's supply of liquid assets (and the monetary policies they are likely to induce) and cyclical fluctuations. These are so numerous as to defy even listing in the available time. There are, however, a few key ones upon which it is possible to comment.

(1) World War II left us a heritage of completely liquid or vey highly liquid assets. The first is provided by cash plus insured demand and time deposits. The second includes marketable and non-marketable but cashable-on-demand government securities. These assets in aggregate are still much larger in relation to national income than in earlier terms. The effect of this new relationship is, other things equal, to strengthen substantially the resistance to a deflationary movement that the very existence of such holdings offers. And bear in mind that this resistance draws strength not merely from the relative size of the stock of assets but from the fact that declining prices operate to raise their real value, thus stimulating consumers' expenditures and investment at any given level of real income.

(2) The emergence of Government deficits on downswings due to built-in flexibility will itself tend to increase the quantity of such assets, depending in part on the method of financing. This in turn will tend to strengthen spending for the reason given in No. 1—a strengthening additional to that which stems from the rise in disposable income resulting from the deficits.

(3) For a variety of reasons ranging from fair to highly questionable the Government authorities seem agreed that marked fluctuations in market price of Federal securities will be intolerable. In consequence, they engage to hold prices of marketable issues within rather narrow limits. Implementation of such a policy of course aggravates the difficulties of controlling inflationary tendencies. But more important from our viewpoint, it does add still further strength to the system's resistance to cumulative recession by removing any great likelihood of destructive liquidations of purchasing power similar to those rising from bank loan reductions in prewar downswings.

(4) Apart from this point, there seems to be good reason to think that the monetary authorities will be much more alert to provide easy money conditions when recession evidently holds sway and much more reluctant than heretofore to tighten credit markets when the outlook is uncertain. In and of itself, this approach is unlikely to exercise a large stimulating effect upon activity. It will, however, contribute something, and the result again will be in the direction of mitigating downswings. I question whether we shall again see perverse actions of the sorts occuring in 1931 and 1937.

(5) We have become quite handy with selective credit controls—in the fields of installment buying, margin requirements, etc. Although recent experience in the former connection is not wholly without discouraging aspects, the postwar record as a whole suggests that—in bearing in mind the large percentage of bank loan activity they cover—reliance upon such instruments can do much to moderate expansion (and thus the basis for subsequent contraction) when activity is high. Here too there is some reason to expect a picture more favorable than that of the past.

I am painfully aware that all this is very broad and general and would require divers qualifications if it pretended to treat the subject problems thoroughly. Nevertheless, the main points stand forth clearly and almost without exception seem to me to indicate the same general conclusion—both the relative scale of our liquid holdings and the bias of policy in the monetary and debt management fields are such as to provide much stronger defenses against cumulative deflation than in days gone by. That the same bias tends to render us more vulnerable to inflationary presures is equally clear but is not the immediate subject.

Other Factors

Under this catch-all, I mean to include the situation with respect to our willingness and preparedness to take careful discretionary steps of a non-monetary or fiscal order to moderate cyclical movements. Extensive discussion is impossible, but my impression is that we are now in better shape in this respect than in prewar days. Contra-cyclical public works policy (defined to include public housing policy) is at once the most instructive and practically speaking the most important example. In my judgment the recent literature on this subject has been very realistic in discussing the limitations of such a policy—the difficultes of initiating and accelerating or retarding projects, for example, or the problems connected with development of standards to determine when acceleration or slow-down is in order and the difficulties in more or less maintaining a sufficient stock of useful projects. But in all respects it seems clear that we have advanced somewhat towards solutions. We know much better what sorts of projects serve best the purpose of deliberate acceleration or retardation. We have one good first test for action in the aim of "achieving approximate stability in the construction industry"—even though it will occasionally tend to push building ahead in stable or even inflationary periods and in addition does not necessarily meet the problem of spot unemployment (which I would not seek to meet in any but severe hardship cases) and runs the risk of solidifying some serious structural defects of the construction industry. And we are in better position with respect to a projects-shelf—although so to say is less to praise the present situation than to indict the past. At any rate, we ought to do better on this score. And again the result will be to narrow the range of fluctuations.

Summary

The time has come to restate in summary form the key point of my comments and to guard against a misunderstanding to which I suspect they may lead. I can best do these things by trying to answer a couple of self-addressed questions.

First, am I declaring that we are through with major recessions unless the government so acts as to counterbalance or more-than-counterbalance built-in flexibility by discretionary action (e.g., raising tax rates and cutting Government expenditures to keep the budget in balance (or even reduce the debt) as yields fall off due to declining business — our policy in 1931-32)? Not all all. Our system still exhibits (and will doubtless always exhibit) a strong tendency to bunch demand for both consumers' and producers' durables—a cyclical pressure that is reinforced by the elasticity of the credit system. You could observe such bunching for yourselves in many fields during the past two or three years. More of it is in prospect for another year or so. The ultimate effect will probably be unruly replacement cycles in the mid-'50's or late '50's. My point is rather that with the outlined changes in the system's structural properties and with what promises to be a more effective policy, we can look for significant easing of the downward pressures. I do not believe that we can have another 1929-1933; and I doubt whether we shall have downswings that are both as abrupt and as deep as 1920-21 or 1937-38 — though the possibility is not excluded and amplitudes equalling or exceeding those of the cycles in question are conceivable.

Secondly, **does the strengthening of our defenses against severe downswings mean that we are well on the way to resolving our major economic difficulties?** Here the answer, I think, must be definitely in the negative. Many of the same forces that yield this result are now producing or threatening to produce serious long-run disturbances—rendering secular inflation difficult, if not impossible. to check, for example. Some of them moreover, in conjunction with other attributes of our institutional framework, especially perversities in the Federal tax system and a growing willingness to make inconsistent welfare commitments, present a real threat to the preservation of a free and workable system—reducing incentives to dynamic investment. penalizing savers in all income classes and coming finally to the point at which the community will be unable to meet from production the aggregate pledges that will have been made. We can easily work (and perhaps are now working) our way into a fatal mess. Happily, however, this can only be a subject for another talk.

1 See M. Friedman, "Rejoinder" [to Neff's comment on his paper, "A Monetary and Fiscal Framework for Economic Stability"], *American Economic Review*, September 1949, p. 954.

Wilbur Wittich to Be Partner in Grimm Co.

Wilbur R. Wittich will be admitted to partnership in Grimm & Co., 44 Wall Street, New York City, members of the New York Stock Exchange. Mr. Wittich was formerly Manager of the trading department of the New York office of Walston, Hoffman & Goodwin and prior thereto was a partner in Maxwell, Marshall & Co.

Wilbur Wittich

Hunter & Co. Offers Anchor Mines Stock

An issue of 296,000 shares of common stock of the Anchor Mines, Inc., is being offered at $1 per share by Hunter & Co., New York.

Anchor Mines, Inc., it is stated, offers an opportunity for speculative investment in an established gold mining property. Entirely on the basis of the value of its existing assets which include machinery, mining claims and ore reserves necessary for gold production, the company has previously issued 300,010 shares of common stock, 25c par value, which are outstanding.

One small developed section of the Golden Anchor Vein has, it is said, already produced values in excess of $2,000,000 at today's prices and future possibilities are favorable. To finance certain important steps in converting these potentialities into possible profit, the company is now offering to the public an additional 296,000 shares of its common stock at a cash price of $1 per share.

The mining properties of Anchor Mines, Inc., are located on the south side of the Salomon River Canyon 150 miles north of Boise in the Marshall Lake mining district of Idaho. The company owns 38 claims of which six are patented and 32 are mineral locations, covering the projected strike of five located and exposed veins.

The Golden Anchor Mine has been productive since its discovery.

U. S. Mint receipts show that bullion to the known amount of $258,000 was produced by predecessors of the company between the years of 1914 and 1920 when gold was selling at $20.67 an ounce. At today's prices the same gold would bring $436,865.

From September, 1935, when the immediate predecessor of the company started milling operations until April, 1942, when wartime conditions made necessary the suspension of operations, the total gross production was $1,685,856 including $447.21 received from lead and copper production.

Thus, in mining one small developed section of one vein, the Golden Anchor Mine has produced values of $2,122,721 at today's prices.

Many tons of commercially profitable gold ore are standing in the mine today awaiting the resumption of mining effort.

J. K. Willing, Jr. With Girard Trust Company

PHILADELPHIA, PA.—J. Kent Willing, Jr., recently with the investment advisory department of Smith, Barney & Co., Philadelphia, has been elected trusts investments officer of Girard Trust Co.

Where We Are Going and What to Do About It

(Continued from page 2)

Sam. Twenty years ago all varieties of government, omitting Federal debt service, cost the average family less than $200 annually. Today, the same service costs the average family $1,300 annually. Mr. Average Citizen today works 61 days out of each year to pay the tax bill and, if the spending measures now proposed are enacted, another 20 days out of each year will be added, or one week out of every 30 working days.

Approaching the "Collectivist State"

Slowly but surely, over the past 16 years, we have been approaching the so-called "collectivist state." One by one the areas formerly subject to exclusive state control have been taken over by government. Public housing, minimum wages and hours, education, social security and crop control, are a few examples. Socialized medicine is next on the proposed agenda.

Someone has said "the tendency of everything is to become more so." This is particularly true with the doctrine of states' rights. They have practically ceased to exist. Under successive interpretations by our Supreme Court there is practically nothing left that may be called intrastate commerce. Elevator men and window cleaners in an office building have been held to be engaged in interstate commerce because, forsooth, the building in question is occupied by persons, some of whom are engaged in interstate transactions. The small Ohio farmer is fined because the wheat he raised and fed to his own chickens for consumption at his own table constituted wheat in excess of what some agency in Washington told him he might produce. The time may soon arrive when the governor of no one of our so-called "sovereign" states will dare blow the gubernatorial nose without a permit from Washington. Federal control and Federal bureaucracy march on!

There is now pending in the Congress a bill designated as S281 and called "The Economic Expansion Act of 1949." Companion bills have been introduced in the House of Representatives. This legislation, introduced by a strong coterie of so-called progressives in the House and Senate, would throw wide the doors of the United State Treasury to political spoilation. It would place the government in competition with private industry in many important lines. It appropriates $4 billion for Federal meddling with our economy and authorizes $11 billion additional for public debt transactions in the form of guaranties, loans and other financial commitments. No strings of any consequence are placed upon the expenditure of this, your money and mine. Vocational training at government expense, grants of public funds for workers desiring to move from a so-called "normal" area to a so-called "depressed area, an unemployment reserve fund of over $2 billion and $4½ billion for financing projects in economically undeveloped areas throughout the world, are a few of the highlights. A more perfect picture of, or a clearer approach to, socialism can not be imagined—a pork barrel which, for size and opportunity for political "pap," has never been equalled, not even in the most decadent years of the Roman Empire. This bill, I am told, is well sponsored and may be enacted into law unless the people awaken to its menace.

What of the People?

And what of the people? Are they awake to the blessings of liberty which they enjoy, and alert to defend them? Do they realize that freedom is not a free gift but something that must be eternally fought for and defended? The figures of the last general election give a sorry answer. The successful candidate for the Presidency was elected in 1948 by only a little over one-quarter of the Americans old enough to vote—16% of our total population. Of 72 million people in this country qualified to vote, there were nearly 23 million who did not vote in 1948 because of indifference or inconvenience. Those who ignored their precious right of franchise constitute over 95% in number of those who actually voted for the successful candidate. In contrast, the vote cast at the so-called "free elections" in countries dominated by Russia has run as high as 92% of the qualified voters. Can we, say that our people are worthy of free institutions while situations such as this continue? Can we, in fact, truthfully say that we have each done our utmost to remedy this frightful apathy on the part of our people as to who shall govern us? And if not, are we who value our birthright and recognize the consequence of such apathy, much less to blame than those who, through ignorance or laziness, fail to express their free choice on election day? I think not.

To account for deficiencies and failures such as I have mentioned, I fear we are quite too prone to "pass the buck." The tendency is to blame Congress and the State legislatures, or the party in power, for whatever we find in the way of extravagance or maladministration. It is true, no doubt, that much of the unwisdom emanating from Washington and our State legislative halls can be laid at the door of pressure blocks. Labor, certain segments of business, the veterans' organizations, the farmers and the office holders, all represent groups with special problems, well-organized and paid lobbies, and all seeking special benefits and privileges for their members. But collectively these blocks represent only a portion of the total, and ways must be found to counteract and balance the terrific pressure they bring upon our representatives if our government is not to degenerate into one run for special interests of the few at the expense of the many. As ex-President Hoover well said in his recent Palo Alto address:

"Aggression of groups and agencies against the people as a whole is not a process of free men. Special privileges either to business or groups is not liberty."

What of the Future?

Now, then, what of the present and probable future consequences of the matters to which I have referred? First and foremost I place the loss of self-reliance, independence and mental integrity on the part of our people. If you, as an individual, were faced with an exceedingly heavy debt which, for the payment of interest alone, required your best effort and you suddenly saw your income somewhat reduced, it is unlikely that you would try to solve your problem by borrowing more and continuing to spend at an accelerated rate. Instead, you would work harder, reduce expenses and save more so that you could pay interest and something on principal, based on your smaller income. Certainly, you would not consider that your problem would be made easier by buying a Cadillac and taking a trip to Europe on borrowed funds. Yet that is the apparent philosophy of many now in Washington.

The legislation introduced and the debates conducted in the 81st Congress indicate quite clearly what is happening. It is proposed that every legal limitation upon political extravagance be removed and the wealth of the nation, whether in personal hands or not, be thus squeezed from a cornucopia that is supposedly inexhaustible. We hear talk of a budget crisis. Were it only that, it would be bad enough, but it goes far deeper. There is a budget crisis only because there is a moral crisis and only because people everywhere, high and low, have been taught to believe that the way to prosperity is through indiscipline and abhorrence of frugality; the rejection of all the moral law on which the greatness of this country was founded and on which its permanent wellbeing must rest.

"The people never give up their liberties save under some illusion," said Edmund Burke, but surely they ought not now to be under any further illusion in this country as to the necessity for applying the brakes. We must realize that habitual "deficit financing" is, in fact, a slow approach to statism, one step removed from communism. America is a commercial empire. The solvency of its institutions and the sanctity of its commitments are the bulwarks upon which civilization depends. Its productivity is the supreme defense against communism and the hope of that portion of the world still free. Above all, therefore, sobriety in financing is required and not even Stalin himself is as grave a menace to human liberty as reckless "welfare."

Wherever you find politics, there you will find "pinks." A "pink" has been defined as "one who is too yellow to be red." He only lacks the courage. He is a pupil in the grammar grade of socialism through which the timid communist usually travels to reach "red high school." These birds and their upper grade classmen, the "commies," would sell us down the river for generations to come in return for a kind word from Moscow and a remote hope of being a commissar after the long-hoped-for revolution. For them the job of undermining our economy, subverting our institutions and bamboozling our people with their Moscow hog-wash is a 24-hour full-time job. And they have made some progress toward these ends.

Hear what the Hon. James F. Byrnes, former Secretary of State under Roosevelt, said in an address delivered at Washington and Lee University on June 18 of this year, as quoted by the Associated Press:

"We are going down the road to Statism. Where we will wind up no one can tell. But if some of the new programs seriously proposed should be adopted there is danger that the individual—whether farmer, worker, manufacturer, lawyer or doctor—will soon be an economic slave pulling an oar in the galley of the State."

Hear, too, what the Hon. Harry F. Byrd, Democratic Senator from Virginia, said in an address delivered before the Chamber of Commerce of the United States on May 4 of this year:

"I have never seen, in the entire 16 years I have been in the Senate, such a well-defined, well-planned effort irrevocably to commit this country to state socialism as exists in the Congress of the United States today. Never have I seen it as aggressive, as impulsive and as anxious to institute these things in the body politic of this nation, to remain there for ever and ever."

And please remember, my friends, that once the dead hand of government affixes itself to our body politic, it is never released. Socialist experiments are equipped with only one gear shift, forward, never in reverse. Trying socialism in any form is like trying pregnancy—the trial is a commitment for all foreseeable future time.

Do you agree with me when I say we are traveling a dangerous road? Do you believe with me that government finance and household finance are alike in one important particular: the interest and principal of debt must ultimately be paid unless the creditor who holds the obligation is to be robbed? Do you follow me when I say that no city, state, or nation can spend and spend, tax and tax, without ultimately ruining its economy and despoiling its people? Are we in accord on the proposition that what is needed everywhere is less emphasis on the rights of man and more emphasis on his duties and responsibilities; less emphasis on how one can obtain something of value with no effort and more emphasis on industry, thrift and character? If so, you may want to consider what can be done about it all. If not, I have no message for you.

What Can Be Done?

What can you do? A great deal. You are a freeborn American citizen with as much right to express your opinion, thank God, as the mightiest in the land. You can be an active citizen, working for the welfare of the nation, rather than a fatalist. You can tell your representatives in Congress what you think. You can discuss, argue and persuade, wherever it might do some good, helping to educate and arouse public opinion. There are millions of us capable of speaking up and getting a respectful hearing. Thinking and debate on such matters must not be confined to legislative halls. We should enlist the interest of clubs, schools, fraternal organizations, civic organizations, churches, and trade groups, in the gospel of sound and sane government. The Committee for Constitutional Government in New York, and the Citizens Committee for the Hoover Report, with headquarters in Philadelphia and branches throughout the country, both non-partisan and non-politcal, are doing splendid work and should be encouraged and supported. An aroused, informed and active electorate will turn the tide back to sanity if the "underprivileged" business men and women of this country, the great mass of citizenry with no axe to grind, awaken to the perils of the present situation and get fighting made. You, and you, can do much to enlist this army of defense against the oncoming forces of disaster. "Grass roots" work will be necessary. We did this to sell hundreds of millions in Liberty Bonds. With our very way of life at stake we can do it again to defend the liberty for which we were then fighting. Vast unused forces and manpower wait to be enlisted. Over three million little-business men and seven million little property owners are being slowly but surely liquidated. There are millions of our citizenry ground between the upper and nether millstones of high taxes and the depreciated dollar, ready to fight for liberty again if led by men who have convictions that burn in their hearts for the right as against wrong. Liberty waits once more for men like you, serving as the volunteer leaders and organizers of an American freedom movement. I conclude with a further quotation from Hoover, the unjustly discredited of 1932, the honored citizen and elder statesman of 1949:

"A splendid storehouse of integrity and freedom have been bequeathed to us by our forefathers. In this day of confusion, of peril to liberty, our high duty is to see to it that this storehouse is not robbed of its contents.

"We dare not see the birthright of posterity to individual independence, initiative and freedom of choice bartered for a mess of collectivist system. . . .The Founding Fathers dedicated the structure of our government 'to secure the blessings of liberty to us and our posterity.' We of this generation inherited this precious blessing. Yet, as spendthrifts, we are on our way to rob posterity of its inheritance.

"The American people have solved many great crises in national life. The qualities of self-restraint, of integrity, of conscience and courage still live in our people. It is not too late to summon these qualities."

God grant that his last statement proves true.

Inflation Psychology And Common Stocks

(Continued from page 3)

tion that there is an implication of dollar deterioration has little validity.

If one wants to look a considerable distance into the future, he will find more validity in the dollar deterioration argument. The failure of commodity prices to rise because of supply and demand conditions, coupled with rigid labor costs, government controls, and higher taxes, is most likely to reduce profits, and hence reduce the incentive to expand productive facilities to take care of population growth trends. Marginal productive capacity may get squeezed out by bankruptcy. Ultimately, therefore, increased demands of the larger population would overtake productive capacity and the relative shortages would then cause higher commodity prices. However, for practical purposes it is important to realize that a lot of water has to go over the dam in the meanwhile.

Business Activity

The major trend of capital expenditures by business is downward because of the abnormal boom in this type of spending that has been so evident since the end of the war. As one writer puts it, rather than look upon these capital expenditure programs as being reduced, we should look upon them as being completed. That trend might be accelerated by the indicated decline in profits, which, in turn, might be accelerated by an increase in corporation taxes. These capital expenditures are the most dynamic single segment of the job creation part of our economy and we seriously doubt that the effects of this downward trend on employment and payrolls will be offset by the suggested government deficit.

There is a veritable barrage of questions about the prospects for decreasing the value of the dollar by raising the price of gold. In the first place, let it be clearly understood that the Administration does not have the legal power to so devalue the dollar without the approval of Congress. There is some opinion to the effect that the Secretary of the Treasury could vary the price at which the government buys gold, but, if he did this under present laws, the purchased gold would have to be segregated from our monetary structure and the transaction would be very similar to the stockpiling of strategic war materials. There is a serious question as to where the government would get the dollars to buy an important quantity of gold on such a basis.

But suppose the price of gold were to be raised by taking ad-

vantage of some legal technicality of dubious validity—which we very much doubt. For each 10% increase in the price of gold there would be approximately $2.5 billion of **non-recurring** "profit." We emphasize the "non-recurring" aspect of the matter because this would be a balance sheet transaction rather than a continuing "profit." The "profit" could only be used once in offsetting Federal deficits. The money and credit base would be enlarged but certainly our economic problems of the day are not concerned with tight credit. There is plenty of money and credit; the problems concern the use of that capital.

World production of gold is about 28 million ounces per year, so an increase in the price of, let us say, $10 per ounce would mean an additional $280 million, certainly an insignificant sum in relation to the total monetary supply of the world, or in relation to the value of world production of all goods and services. If we eliminate the estimated gold production in Russia, we have to think in terms of 22 million ounces per year, or $220 million, as a result of a $10 per ounce increase. U. S. production is about 2.5 million ounces per year and a $10 per ounce increase would mean $25 million. It is a little ridiculous to expect that figures of this size could have any important fundamental bearing on our economy or the economies of friendly foreign powers.

Nevertheless, important psychological and political factors are involved. Unquestionably, a large percentage of the people believe that a higher price of gold would necessarily cause an increase in commodity prices, and prospects of higher commodity prices stimulate the desire to own "things." This is exactly the reason why gold price increases are looked upon as a helpful political tool.

It would seem to us that the political party in power would carefully reserve this "rabbit" for a time when the economy was really in bad shape, especially when such a period of high unemployment was just before an important election. Why should they exhaust the "rabbit" when there was no advantage in doing so, especially when the effects would be so largely restricted to the psychological factor alone?

My reply, therefore, to inquiries about the prospects for increasing the price of gold is to the effect that such a move seems completely illogical from a political viewpoint at this time and that the fundamental effects would not be great enough to justify such a move right now, anyhow. In our opinion, the prospects for increasing the price of gold would increase in direct ratio with deterioration in the economy, with the timing also being influenced by the incidence of important elections.

Money Supply

In connection with the subject of inflation, we must not forget the figures on the supply of money that is available to individuals and businesses. The total of demand deposits and the time deposits in reporting member banks, plus money in circulation, was $89 billion on Oct. 12. This is about $1 billion less than the same date a year ago. Three months ago, before the last reduction in Reserve requirements and before the latest seasonal upward trend in business loans set in, the money supply so calculated was also $89 billion. Thus, the money supply available to the general public has not been increasing in the last three months and it is $1 billion less than it was a year ago.

Suppose the government deficit is to be financed entirely by bank credit. It is quite unlikely that the deficit would come into the money structure to that extent, but even if it did, the inflationary implications of such an addition to an already large supply could easily be offset by other economic forces. This large money supply is a very handy condition to have around when the other economic factors are propitious for activating those funds, but the economic effects are much more dependent on the use of the funds than upon the supply itself. We had a period of very strong economic expansion during the '20s with a much lower money supply and we had a period of severe economic contraction in 1937-38 in spite of a relatively large supply.

There seems to be a subconscious presumption that the government deficit will automatically cause higher commodity prices and will stimulate activity and that these two factors in combination will improve earnings. We have already pointed out why we believe the supply and demand forces are pressing in the direction of lower commodity prices or at least will prevent a rising trend. Meanwhile, the tendency seems to be in a direction of no decline in labor costs, as labor disputes are settled by granting pensions. In our opinion, the level of activity is more likely to be influenced by the downward trend of capital expenditures by business than by the government deficit. We also have to take into our calculations the possibility of higher corporation taxes. Under these conditions, it is difficult to conclude that the government's deficit is likely to cause any improvement in corporation earnings. The economic and political forces are in the opposite directions.

Stock Prices

I have no doubt that the recent flurry of inflation psychology is having a favorable effect on the demand for common stocks. As we have pointed out, there has not been a recent increase in the supply of cash and its equivalent, but we are quite sure that the fear of inflation has activated idle cash. The strength of psychological waves of this type are always difficult to measure. Especially is this true of the emotion created by fear of inflation. About all we can do is to recognize that there is a certain amount of fallacious reasoning involved and try to guess when the psychological force will peter out.

I cannot dismiss this matter of the effects of inflation on stock prices without directing attention again to the fact that the stock prices in England are near the lowest levels in many years because the inflationary aspects of government spending and currency devaluation have been offset by the strength of labor, by increased taxation and by governmental pressures to keep commodity prices at levels that would only afford a meager profit. In this country, we have a somewhat similar labor cost factor, the political pressures are likely to lead in the direction of higher corporation taxes and the supply and demand pressures make it quite unnecessary for the government to use its powers to prevent higher prices. Under these conditions then how can we anticipate that the benefits accruing to equity ownership will be stimulated by government spending in this country any more than has proven to be the case in England?

Furthermore, it must be remembered that we have a concrete example in this country to prove that a large supply of money cannot alone sustain stock prices. We refer to the 1937-38 period when, for the first time in history, we had a sharp bear market in spite of a large money supply.

Now let us try to guide all of the foregoing into its proper perspective. As we pointed out in the beginning, we can see actual examples where common stocks were being purchased as a result of a blind fear of inflation, which seems to find its genesis in the prospect of a government deficit and the rumors of an increase in the price of gold. In discussing the inflation subject in some detail, it has been our purpose to convert emotion into a more rational appraisal of the situation.

There is no denying the fact that there is a huge supply of money, just as there has been for quite a few years, and perhaps the Federal Government's deficit may add some more, although the proportionate increase is not likely to be very large from this viewpoint. A certain portion of this money supply unquestionably could find its way into the security markets when the fundamental incentives for such action are propitious. Certainly the situation is stronger than it would be if the money supply was small. However, the supply itself is not necessarily the determining force. The incentive to own equities will also be influenced by the trend of earnings and dividends, as dictated by trends of commodity prices, business activity, taxes, labor costs, profit margins and all of the other factors. It is our opinion then that this whole matter of inflation has to be reasoned out, as outlined above, and then woven into the pattern along with the numerous other forces that have an influence on the attractiveness of equity ownership.

Devalued Sterling, No Assurance Of Economic Stability

(Continued from first page)

were undervaluing it, it could be readily revalued upward.

Now the fact is that the pound can be purchased for less than $2.80 in various free markets of the world. Indeed, it is said to be available at approximately $2.50 in New York. If, as now seems likely, the pound needs support to maintain it at $2.80, we may find ourselves involved in an expensive contribution to that support.

Either the U. S. Treasury or our Federal Reserve System may have to expend large sums to purchase sterling in order to maintain its present "value." On the other hand, there are insistent suggestions from high places, even in London, that the pound will have to be further devalued, all of which means increasing instability, complicating current transactions and discouraging long-term commitments.

What do we mean by the "value" of the pound? How is its "value" determined? It is no longer convertible. Its holder cannot convert it into a prescribed quantity of gold or silver or other commodity. It is simply an official medium of exchange; neither the British Exchequer nor the Bank of England will give anything for it except another piece of paper similarly official but similarly lacking in convertibility.

The "value" of the pound may mean one thing at home and another abroad. In Great Britain its "value" is it purchasing value, and that purchasing value depends in part on the extent to which its quantity has been increased, that is, the extent to which the money supply of Great Britain has been inflated. The increased quantity of pounds sterling, like all increases in money supply, has contributed to the depreciation of the pound and its purchasing value. While Great Britain has increased its money supply considerably, it has not gone as far in that direction as we have in this country.

The value of the pound in countries other than Great Britain depends on many factors, not the least important of which is confidence in the future British economy and the predictability of its economic, financial and political policies.

Great Britain did not during the war or since inflate her money supply to the extent that we in the United States inflated ours. We increased our money supply from about $65 billion just before the war to $170 billion at the beginning of this year, a figure which our money supply still approximates.

The simple fact is that the British did a better job than we did in the financing of World War II. They did not make use of bank credit to the extent that we did, and they did not permit or encourage the expansion of bank deposits as we did not only during the war but since. According to the figures of our Federal Reserve Board, the British circulation increased from 550 million pounds to 1,300 million pounds while ours was increasing from $6.4 billion to $25 billion. At the same time British bank deposits increased from approximately 2.5 billion pounds to 6 billion pounds while ours were increasing from less than $60 billion to more than $140 billion. Included in these figures of British deposits is a large sum, said to be nearly 3 billion pounds, of blocked sterling the use of which by their owners, mostly non-British, is strictly limited. This means that a substantial part of current British deposits is not active and is, therefore, not exerting much influence on British prices.

The fact that our prices have gone up in terms of dollars has been due in large part to the adulteration of our dollar in the process of inflating our money supply. Our production has increased more rapidly than Britain's but so also has our money supply, and the result is that our prices have gone up despite our increased production. In Britain the inflation of the money supply has not been so great, but neither has the increase in production been very substantial. British prices have gone up not primarily because there is more money but because there is less production to meet the demand during the postwar period.

It would seem, therefore, that the devaluation of the British pound was not a result of monetary inflation but was the result of decreased confidence in other countries in the present and future value of the pound combined with the British need of imports particularly from dollar areas. The devaluation, in other words, was intended to give Great Britain more purchasing power in dollar areas, the products of which were essential to her population.

We can but conclude that devaluation will not cure Britain's monetary and production troubles. There are many things which will have to be done, including stabilization of British economy and of the British monetary unit, if any of the benefits expected from devaluation are to be realized. All of which brings us around to the alternative facing every country, including the United States, which desires to maintain and develop what we call civilization.

The continued progress of civilization depends on long-term commitments in terms of money, and it is foolish to assume that we are going to have long-term commitments if the providers of capital have no confidence in the continued value of the monetary unit in which their capital is to be returned to them at some distant date.

The alternatives confronting us are that we either get busy now and make plans to stabilize our money so that its value, for the next generation at least, will be reasonably stable and predictable—and if we don't do that soon it will be hard almost to the point of impossibility to do it later—or, failing this, allow inflation and devaluation to continue until we get to the point where we do as the Germans did in 1922; throw up our hands, say what's the use and let our money go through the ceiling, burning up our existing economy and its relationships and leaving us with the necessity of developing a new monetary unit and revaluation of old obligations.

If that is the torture that we want to put ourselves through, we are certainly, in Great Britain and in this country, preparing the way and accelerating the pace. But if we have any common sense left, we must realize that we of this generation and those of the next will be better off, if we take the medicine necessary to cure our present monetary ills and get on the sound, stable bases essential to continued progress and security.

Paul Davis Opens Peoria Branch Under Eric A. Laing

PEORIA, ILL.—Paul H. Davis & Co., prominent Chicago investment house, announce the opening of a Peoria office in the Jefferson Building, 331 Fulton Street, under the management of Eric A. Laing.

Paul H. Davis & Co., established 1916, has been identified with the financing of many outstanding Midwestern corporations. The firm holds memberships in the New York and Chicago Stock Exchanges and the Chicago Board of Trade. Mr. Davis was formerly a Director of the New York Stock Exchange.

Mr. Laing is well known in Peoria, having been in the investment banking business in this city since 1924. In 1934 he organized his own firm, and Eric Laing & Co. has been closely associated with Paul H. Davis & Co. for a number of years.

Mr. Laing, a graduate of Knox College, is a member of Creve Coeur Club, the Peoria Country Club and the Peoria Association of Commerce.

Also connected with the new office are Charles T. Conqueror and Lee W. Hazard, both of whom have been associated with Mr. Laing for many years.

D. C. Cook Sworn in As New SEC Member

WASHINGTON, D. C.—Donald C. Cook has been sworn in as a member of the Securities and Exchange Commission, to succeed Robert K. McConnaughey who recently resigned. Mr. Cook's appointment will have to be approved by the Senate when it convenes in January, since it was a recess appointment. Mr. Cook was a member of the SEC staff from 1935 to 1945.

Alexander Greene in NYC

Alexander Greene is engaging in the securities business from offices at 475 Fifth Avenue, New York City. He was formerly with First Investors Share Corporation and Counselled Funds Distributors, Inc.

With Gill Associates

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO — Byron W. Lenz has become connected with Gill Associates, Inc., Gardner Building. He was formerly an officer of the Lucas County Bank of Toledo.

Why Stock May Rise on Declining Earnings

(Continued from first page)

152% during the war-period bull market, while earnings declined 16.9%. After the war the behavior of the market was even more inconsistent. By June 13, 1949, the industrial average had declined to 161.6. Meanwhile, per share earnings increased from $10.24 to $23.91; that is, a 135% increase in earnings after income taxes was accompanied by a 23.2% shrinkage in stock values. The lack of correlation between prices and earnings during the 1941-1949 period is portrayed graphically on the accompanying chart.

Prices in the stock market are set by the interplay of the forces of supply and demand. Supply and demand, in turn, are determined by the *number of individuals* seeking to buy or sell and by the *notions of value* held by those engaging in market activity. Many persons accept market quotations as representing the evaluation opinions of all stockholders, those who do not trade as well as those who do. This is true only if stockholders refrain from trading because their present evaluations coincide exactly with current quotations. Actually, as will be shown, many stockholders ignore the market entirely and refrain from participation in its activity because they are too busy to trade, have no funds to invest, or feel that speculation requires special knowledge and ability which they do not possess. All of which leads to a conclusion that is obvious: quotations merely measure the evaluations of *those who trade.*

If this is so, then two questions of importance are raised. How many persons have been involved in trading? What are the factors that have caused them to enter the market on the buying or selling side during the past eight years? If answers to these two questions can be found, then it is no longer difficult to understand why stock prices rose when earnings declined and declined when earnings rose.

How Many Persons Are Involved in Market Trading?

Strange as it may seem, only a small proportion of shareholders ever participate in market activity. In 1948, for example, less than 1% of the outstanding shares of Coca Cola common were involved in market trading. The similar percentages for trading in Sears Roebuck and Eastman Kodak were 5.4 and 5.0, respectively, while that of Bethlehem Steel was 20.6. Thus it is certain that at least 99% of the outstanding stock of Coca Cola, 94% of the outstanding stock of Sears Roebuck and Eastman Kodak, and 79% of the outstanding stock of Bethlehem Steel played no part in setting the prices of these issues in the market.

A market in which trading is limited in volume is said to be "thin." Thinness denotes a stability of stock ownership, for if every stockholder were satisfied to hold his shares, market activity would vanish altogether. Stability of ownership is apt to be accompanied by unstable prices. When the majority of investors refrain from trading, the market becomes increasingly sensitive to the whims of the minority who do trade. For example, in 1948, if an additional 1% of the shareholders of Coca Cola had decided to sell, downward pressure on the price of this issue would have been doubled.

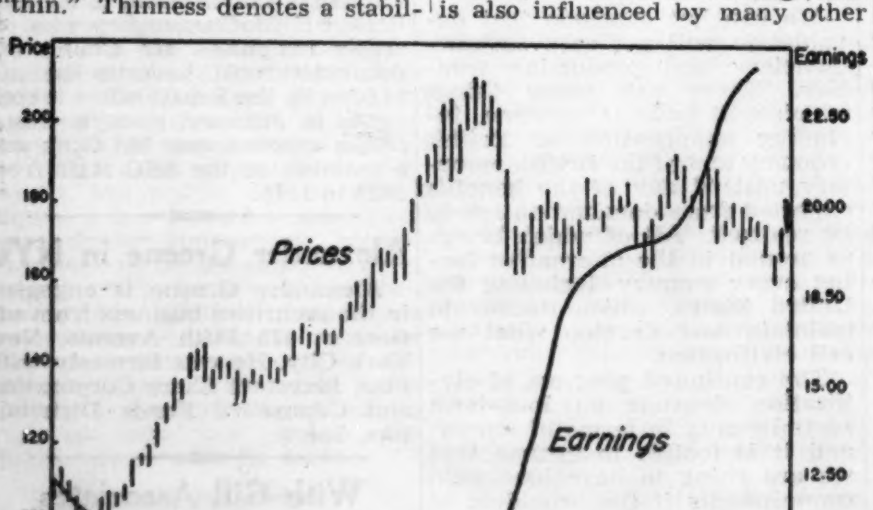
What was true of Coca Cola in 1948 has been true to a lesser extent of the market as a whole since 1934. Prior to 1934, shares traded varied from 32 to 122% of total shares listed. Since that year shares traded have usually been less than 25% of total shares listed. In 1942, for example, the course of prices was determined by the attitudes and activity of the holders of less than 9% of the outstanding stock since 91.45% of listed shares did not participate in trading activity at any time during the year.

What Are the Factors that Motivate Investors?

It is generally believed that investors buy shares when current prices are low and sell shares when current prices are high by comparison to earnings, while speculators strive to anticipate the activity of investors. Thus the market activity of both groups contributes towards maintaining a high correlation between prices and earnings. If this were the whole story, then the decline in market values that began in the early summer of 1946 could be interpreted as meaning that investors failed to forecast earnings accurately. Erroneous forecasts offer a plausible explanation of a temporary failure of prices to follow earnings but a much weaker explanation for a prolonged failure of prices to follow earnings.

When market prices do not follow earnings, one is inclined to conclude either that prices are not based upon earnings or that investors have failed to anticipate earnings accurately. This conclusion is based upon an assumption that the relationship between prices and earnings is constant. The relationship, however, is not always constant. To determine the amount of variation in the ratio that is possible, one needs only to divide actual market prices by earnings per share. If this is done for recent years, it will be found that in 1941 investors were paying $8.50 for a dollar of corporate earnings, that in 1946 they were paying $20.80 for a dollar of corporate earnings, and that in June of the current year they were paying $7.02 for a dollar of corporate earnings.

The normal price-earnings ratio is determined partially by an investor's notion of the proper relationship of price to earnings, but is also influenced by many other factors such as alternative investment opportunities, changes in the propensity to consume, variations in income, and the like. For example, an intelligent investor does not buy stocks at 20 times anticipated earnings when he can safely lend his savings at 5% interest. He might be willing to pay such prices for stocks, however, if his only alternative were to lend his savings at 2%. Similarly, one without funds for investment cannot buy stocks even at prices as low as five or six times earnings. Factors such as these cause the actual price-earnings ratio to fluctuate widely from time to time. If the ratio falls sharply enough, prices may decline even while earnings increase. To understand the strange behavior of the stock market in recent years, it is necessary to discover why the popular concept of the proper relationship of prices to earnings changed so drastically.



Comparison of Industrial Stock Prices with Earnings Per Share

Why Did the Capitalization Rate Change?

During the period of 1942 to 1946 the cash income of many individuals from wages, interest, rents, and dividends (after taxes) exceeded their expenditures for consumer goods. This was to be expected since (1) rationing reduced the physical quantity of goods available for purchase, (2) price control kept the dollar value of purchases low, and (3) the high level of industrial activity increased individual incomes. High incomes and low expenditures left a balance available for investment. Some of the funds were used to buy government bonds, some were carried in the form of higher bank balances, but some of them must have been used to purchase stocks and bonds. Since the situation described was characteristic of almost all individuals there was no off-setting incentive to sell. In other words, during the war period the predominant attitude of individuals toward the market was that of buying. As was explained earlier, the impact on market prices of even a small increase in buying is sufficient to send prices soaring.

It is significant that stock and bond prices began their descent about the time war controls were removed. The ending of rationing encouraged purchasing; removal of price control allowed prices to soar. The net effect for most individuals was that expenditures rose more rapidly than income with a consequential shrinking in the balance available for investment. The impetus to spend was augmented by the wartime campaign slogans, "to save for that postwar home" or "refrigerator" or "automobile." Some individuals balanced their budgets with funds obtained from the sale of stocks and bonds. In any case, the effect of the rise in the cost of living was to greatly reduce investment purchases. Again it may be repeated, the aggregate amount of selling does not have to increase much to send security prices into a tailspin. Normally bargain prices of securities would in themselves act to curb consumptive spending but in recent years this has not occurred; partially because high prices have made it difficult for large segments of the public to obtain what they consider to be the bare necessities of life, and partially because of an insane desire of many persons with Chevrolet incomes to drive Cadillacs.

During the period 1942-46, corporate cash income remaining after the payment of wages, interest, rents, taxes, and dividends exceeded corporate expenditures for capital goods. This was to be expected since raw materials were subject to allocation and since the government financed much of the capital goods needed in the production of war goods. The significance to the present analysis is that corporations were not selling great quantities of securities at a time when the demand for securities was at its maximum. Following the cessation of hostilities, conversion to peacetime production created an enormous need for capital goods. Retained earnings were inadequate for the purpose, so corporations turned to the security markets for funds. Their action augmented supply at a time when the high cost of living and a desire for liquidity was drying up demand. The fact that stocks are currently selling at nine times earnings whereas bonds are selling at 35 times interest payments explains the forced preference of corporations for bond rather than equity financing.

Conclusion

It is generally assumed that the price-earnings ratio is constant so that changes in the market price of securities depend upon changes in earnings. In the past eight years the price-earnings ratio has not remained constant. Hence instead of there being one variable (earnings) there have been two (earnings *and* the price-earnings ratio). When the two variables move in opposite directions, they exert counteracting influences upon prices. Therefore, the direction in which prices move will depend upon which variable has exhibited the greatest change.

The analysis just made has some significance in respect to the future course of security prices. As long as individuals continue to prefer consumption to investment or to insist on keeping their savings in liquid form, the price-earnings ratio applied by buyers and sellers in the market evaluations of common stocks is certain to remain low.

When the intense desire for spending and liquidity passes, the price-earnings ratio will tend to rise and security prices will rise relative to earnings. If, in the course of events, this rise in the price-earnings ratio should happen to occur during a period of declining corporate earnings, we may witness the unusual but quite logical spectacle of declining per share earnings being accompanied by rising security prices.

City Bank Farmers Trust Establishes Fund

Announcement has been made by the Board of Directors of the City Bank Farmers Trust Co. of the establishment of its Discretionary Common Trust Fund A. Under the plan bona fide trusts, of which the Trust Co. is or may become trustee, may have their funds invested in a common investment portfolio, thus permitting greater diversification of investments, and hence greater stability of both principal investment and income yield than such trusts might be able to obtain if separately invested. No more than $50,000 may be invested by any one trust in the common trust fund.

It is expected that through this medium a specially effective service can be rendered in behalf of persons with moderate resources who wish to make a provision for the future benefit of their families. Supervision of the investments of the common trust fund, according to the Trust Company, will be subject to the Company's Trust Investment Committee and to its Directors' Committees.

Alton Blauner to Form Own Investment Firm

Alton Blauner is forming Alton Blauner & Co., Inc., with offices at 20 Pine Street, New York City to engage in the securities business. Mr. Blauner was formerly an officer of Willis E. Burnside & Co., Inc.

First Boston Group Offers Union Electric $4 Preferred Stock

The First Boston Corp. heads an investment banking group which is offering to the public today (Nov. 3) 150,000 shares of Union Electric Co. of Missouri new preferred stock, $4 series, without par value. The stock is priced at $102.56 per share and accrued dividends, to yield 3.90%. The issue was awarded to the group at competitive sale Nov. 1.

Proceeds from the sale will be used by Union Electric for repayment of bank loans, to reimburse the company's treasury for expenditures made for additions and betterments to its property and for amounts previously invested in the capital stock of Union Electric Power Co., a subsidiary. The construction program of the company and its subsidiary is expected to result in gross expenditures during the years 1949-1953, inclusive, of approximately $145,000,000.

The Union Electric system distributes electric energy in St. Louis, Missouri, and in territory adjacent to its properties in Missouri and Illinois.

For the 12 months ended June 30, 1949, the company reported consolidated operating revenues of $68,613,412 and net income of $12,452,885.

The new preferred stock is redeemable at any time at the option of the company at $105.625 per share and accrued dividends.

With completion of this financing the company will have outstanding 533,597 shares of preferred stock which also includes 213,597 shares of $4.50 series; 40,000 shares of $3.70 series and 130,000 shares of $3.50 series; 10,150,000 shares of common stock and $128,000,000 of funded debt.

FIC Banks Place Debs.

A successful offering of an issue of debentures of the Federal Intermediate Credit Banks was made Oct. 18 by M. G. Newcomb, New York fiscal agent for the banks. The financing consisted of $53,030,000 1.30% consolidated debentures dated Nov. 1, 1949, due Aug. 1, 1950. The issue was placed at par. The proceeds, together with $32,340,000 cash in treasury, were used to retire $85,370,000 debentures maturing Nov. 1. As of the close of business Nov. 1, 1949, the total amount of debentures outstanding was $529,790,000.

Corporate Assoc. Formed in NYC

Announcement is made of the formation of Corporate Associates Incorporated, with offices at 40 Wall Street, New York City. The new company will act as negotiators in the sale of incorporated and non-incorporated business.

Lloyd G. Schultz is President and a director of the company; Arthur Blirer is Secretary and a director, and Roy D. Phillips is a director. Mr. Schultz was formerly New York representative for I. C. A. Distributors Inc.

NY Grop of IBA Elects Goldsmith

The New York Group of the Investment Bankers Association elected Clarence E. Goldsmith, White, Weld & Co., Chairman at its annual meeting at the Hotel Pierre. Amyas Ames, Kidder, Peabody & Co., was chosen Vice-Chairman, and Robert E. Broome, Guaranty Trust Co. was elected Secretary-Treasurer.

"Stop Political Waste And Business Baiting" —Merryle Rukeyser

(Continued from page 5)

prodigal promises, it has been delivering austerity and more austerity.

"If we as a people have the wit and the intelligence to learn from the laboratory of frustration in Great Brtain and in partly Socialized Western Europe, we may be spared the cancerous growth incidental to trying out the Marxian and Keynesian fallacies.

"But more than four years after the end of the shooting phase of the war, we have failed as a nation to put our national economic house in order. When a grass-roots attempt was made this year by the customers to squeeze inflation out of the price of goods and services, the very politicians, who had been giving lip service to a battle against inflation, became frightened, and they initiated monetary and fiscal policies calculated to re-inflate the national economy.

"Thus, we have in the American system all the elements needed to apply our demonstrated national success recipe, but we are being restrained by the circulation of reactionary Marxian and Keynesian fallacies which are falsely represented as being progressive and liberal. Our progress toward still greater material well-being and spiritual happiness will be promoted if we clarify the intellectual atmosphere, especially for our young people in the schools and colleges.

"Our younger generation is idealistic, and will show greater enthusiasm for our competitive system when they understand that it is a progressive system capable of throwing off the greatest quantity of material well-being and of humane spiritual growth. Once Marxism is properly interpreted as a slave system impairing individual freedom of choice, our idealistic youth will shun it."

Robert Krieger Joins Charles H. Drews & Co.

Charles H. Drew & Co., 40 Wall Street, New York City, announce that Robert E. Krieger has joined their firm. Mr. Krieger was formerly in charge of the municipal department of the New York office of Reinholdt & Gardner.

Now Corporation

Frank L. Valenta & Co., Inc., 1 Wall Street, New York City, is now doing business as a corporation. Officers are Frank L. Valenta, President; C. A. Donnelly, Vice-President; and Olgo La Boux, Secretary.

Rona Now a Corporation

L. L. Rona & Co., Inc., 40 Exchange Place, New York City, is now doing business as a corporation. Officers are L. L. Rona, President & Treasurer and Lily H. Rona, Vice-President and Secretary.

J. H. Mitchell Opens

TULSA, OKLA.—J. H. Mitchell is now engaging in a securities business from offices 2116 South Peoria. He was formerly connected with King Merrit & Co.

Malmin With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Philip L. Malmin has become associated with Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street. He was formerly with Buckley Brothers, Paine, Webber, Jackson & Curtis, and E. F. Hutton & Company.

The State of Trade and Industry

(Continued from page 5)

Steel company coal stocks are good for at least six weeks' operations. Before this time the coal strike will almost certainly be a national emergency within the meaning of the Taft-Hartley law. If coal is not being mined by that time then steel production will hit its second snag and there will be little doubt about a national emergency, this trade paper notes.

Steel lost as a result of the steel strike will total 8.5 to 9 million tons. Assuming normal steel demand at about 75% of rated steel ingot capacity, it will take the steel industry five to six months to make up the loss caused by the strike that began on Oct. 1. It will be something over a month before steel production can be pushed to full capacity operation. It now appears that almost all steel products will start off on a quota basis—and be allocated by the mills to stretch the available supply.

First signs of the steel shortage are already here, the magazine adds, with automobile company steel buyers trying to sew up conversion deals as they were forced to do last year during the steel scarcity. Their major worry is sheets and so far Detroit estimators put the cost of the steel strike at a minimum of two weeks' loss of automobile production.

Meanwhile the few mills still operating last week were picking up hints of customer caution with one such company receiving several cancelations during the past week. On asking why, its sales officials were told that the buyers felt it useless to continue to receive certain items when others needed to complete their product could not be had. Though a steel scarcity was even then in sight there has been no panic buying, "The Iron Age" concludes, and none of the 1947 hysteria that led people to buy any kind of steel they could get.

* * *

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 8.8% of capacity for the week beginning Oct. 31, 1949, a decline of 0.2 of a point from the preceding week. This is the fifth week of the industry-wide strike.

This week's operating rate is equivalent to 162,000 tons of steel ingots and castings for the entire industry compared to 166,000 tons one week ago. A month ago the rate was 8.2% and production amounted to 151,000 tons; a year ago it stood at 98.9% and 1,782,600 tons, and for the average week in 1940, highest prewar year at 1,281,210 tons.

CARLOADINGS REFLECT A SLIGHT ADVANCE

Loadings of revenue freight for the week ended Oct. 22, 1949, which was affected by continued labor difficulties in the coal and steel industries totaled 589,088 cars, according to the Association of American Railroads. This was an increase of 5,175 cars, or 0.9% above the preceding week. It presented, however, a decrease of 337,888 cars, or 36.5% below the corresponding week in 1948, and a decrease of 365,539 cars, or 38.3% under the similar period in 1947.

ELECTRIC OUTPUT SOMEWHAT IMPROVED IN PAST WEEK BUT REMAINS BELOW 1948 LEVEL

Electrical production for the fourth time since the week of Aug. 3, 1946 showed a decrease when compared with the corresponding period in 1948. The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 29 was estimated at 5,432,753,000 kwh., according to the Edison Electric Institute. This represented an increase of 2,415,000 kwh. above the preceding week when output stood at a revised total of 5,430,338,000 kwh. It was 122,501,000 kwh. lower than the figure reported for the week ended Oct. 30, 1948 but 423,467,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO PRODUCTION DROPS SLIGHTLY THE PAST WEEK

According to "Ward's Automotive Reports" for the past week, motor vehicle production in the United States and Canada declined to an estimated 140,244 units from a revised figure of 143,049 units in the previous period.

"While it is too early to estimate the loss of car and truck production which the steel strike will cause, it is already clear that the unit toll will be counted in hundreds of thousands," the agency added.

The total output for the current week was made up of 115,191 cars and 19,017 trucks built in the U. S. and 4,180 cars and 1,856 trucks in Canada.

The week's total compares with 116,968 a year ago and 92,879 in the like week of 1941.

BUSINESS FAILURES CONTINUE TO ADVANCE

Commercial and industrial failures rose in the week ended Oct. 27 to 221, the second-highest number occurring in any week since 1942, Dun & Bradstreet, Inc., reports. Up from the preceding week's 181, casualties were over twice as numerous as in the comparable weeks of 1948 and 1947 when 104 and 81 businesses failed respectively. However, they remained below the prewar total of 300 reported in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more increased to a postwar peak of 178; this compared with 141 last week and 84 a year ago. Failures having liabilities under $5,000 rose slightly to 43 from 40 but were not as frequent as in earlier weeks this year.

All industry and trade groups except manufacturing reported an increase in mortality. Construction failures, although rising moderately to 30 from 25, had the sharpest rise from 1948; five times as many contractors failed this week as last year.

Increases prevailed in all regions except in the New England and Mountain States. The most marked increase from last year's level occurred in the two North Central Regions.

FOOD PRICE INDEX ADVANCES 14 CENTS IN SHARPEST RISE OF YEAR

The wholesale food price index, compiled by Dun & Bradstreet, Inc., advanced 14 cents, or 2.5%, to stand at $5.72 on October 25, from $5.68 a week previous. A rise of 7¾ cents a pound in the price of coffee accounted for more than half of the gain, which was the sharpest since July 13, 1948 when the index soared 24 cents in one week to reach its all-time peak of $7.36. The current figure compares with $6.47 at this time a year ago, or a drop of 11.6%.

WHOLESALE COMMODITY PRICE INDEX SCORES MODERATE RISE IN LATEST WEEK

Reflecting strength in food and farm prices, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., reversed its downward trend of the previous three weeks to close at 244.25 on Oct. 25, up 2.54 points over the 241.71 of a week ago. At this time last year the index stood at 270.31.

Grain markets last week were again somewhat unsettled. Volume of trading in grain futures on the Chicago Board of Trade increased sharply over that of a week ago with all grains except rye sharing in the expansion.

Price showed considerable strength early in the week following passage of the new farm price bill in Congress, continuing the 90% of parity loan rate for next year.

Cash wheat remained inactive; spot offerings were light due to the large amount of wheat held off the market through government loans. The cash corn market was quite active with prices holding fairly steady following the sharp declines recorded in the preceding period. Good demand and short supplies sent cash oats to new high ground for the season.

Domestic flour bookings remained slow despite an upward price trend in hard wheat bakery flours.

Reflecting unfavorable crop news and a continuing tightness in supplies, coffee prices soared to new highs for the year, the Santos four grade closing at 40 cents a pound, up seven cents in the week.

Cattle prices advanced to new high ground for the year with top quotations reaching the best levels since November 1948. The hog market, however, was under pressure of expanding receipts and prices dropped to new lows since OPA controls were lifted.

Cotton prices, in both the spot and futures markets, were firmer following passage last week of the new farm-price support bill. Other bullish influences included official confirmation of increased domestic mill consumption of cotton during September, continued activity in cotton textiles and the fact that mill stocks currently are at a low level. Toward the latter part of the week, however, the market turned easier as the result of profit-taking attracted by the earlier advances, and increased hedge selling. Sales volume in the 10 spot markets rose sharply in the latest week, totaling 440,700 bales, as compared with 334,200 the week before, and 403,200 in the like week a year ago.

Activity in the carded gray cloth market was the heaviest for some time. Print cloths were in tight supply with prices rising to the best levels of the year.

RETAIL TRADE THE PAST WEEK SHOWS NOTICEABLE DECLINE UNDER LIKE PERIOD OF 1948

Retail volume continued to drop in the period ended on Wednesday of last week as unseasonal weather prevailed and labor conditions remained unsettled. Aggregate nationwide sales were noticeably below the level of the similar week in 1948 states Dun & Bradstreet, Inc., in its summary of trade.

Aggressive promotional campaigns in many Fall and Winter items generally did not overcome the caution of many consumers.

There was a noticeable drop in the demand for Winter apparel last week as the warm weather continued throughout most of the country.

The sale of dresses was slightly above last year's level, except in strike-bound communities where the turnover in many cases dipped sharply. The interest in men's suits lagged considerably with sales somewhat more active in cooler sections of the country.

The retail purchasing of food continued steady the past week. Buying of canned food was sustained at a moderately high level, despite the prevalence of fresh fruit and vegetables. The dollar volume of fresh produce decreased noticeably in some vicinities. The popularity of the cheaper cuts of meat remained unchanged.

A slight decline in the previously high level of consumer demand for housefurnishings was reported last week.

The volume of sales dipped particularly in those areas where employment has been temporarily curtailed; consumers in other parts of the country continued to respond favorably to fall promotions.

Some rural areas were experiencing television sales in preparation for coaxial cable lines.

Total retail volume in the period ended on Wednesday of last week was estimated to be from 8 to 12% below that of a year ago. Regional estimates varied from the levels of a year ago by the following percentages:

New England and Pacific Coast —3 to —7; East —12 to —16; South —6 to —10; Midwest —8 to —12; Northwest —4 to —8 and Southwest —9 to —13.

WHOLESALE TRADE VOLUME IN LATEST WEEK MODERATELY BELOW 1948 PERIOD

As many merchants sought goods for the coming holiday season, the dollar volume of wholesale trade rose very slightly last week. It continued to be moderately below that of a year ago. The number of buyers attending many wholesale markets declined slightly and was noticeably below the corresponding 1948 level.

Department store sales on a countrywide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 22, 1949, decreased by 14% from the like period of last year. In the preceding week a decrease of 12% (corrected) was registered below the like week of 1948. For the four weeks ended Oct. 22, 1949, sales registered a decrease of 11% from the corresponding period a year ago and for the year to date a decline of 6%.

Retail trade in New York was aided last week by cooler temperatures which helped to stimulate seasonal apparel sales. The volume, however, failed to equal that of 1948.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Oct. 22, 1949, decreased by 15% from the same period last year. In the preceding week a decrease of 18% was registered below the similar week of 1948. For the four weeks ended Oct. 22, 1949, a decrease of 13% was reported under that of last year. For the year to date volume decreased by 8%.

NOTE—On another page of this issue the reader will find the most comprehensive coverage of business and industrial statistics showing the latest week, previous week, latest month, previous year, etc., comparisons for determining the week-to-week trends of conditions, by referring to "Indications of Current Business Activity," a regular feature in every Thursday's issue of the "Chronicle."

How Business and Government Can Get Together

(Continued from page 14)

impetus to the depression phase of the cycle.

That takes us into the wage-price policies of the nation and into the pattern of taxation. Put in its extreme form, these ideas simply say that if too much of the real income of the nation goes to too few people, there will not be enough productive investment opportunities into which to put their surpluses. These surpluses are then hoarded and a deficiency of demand for the national product at existing prices naturally follows.

As a nation approaches maturity these tendencies become more serious in their impact since new capital ventures of a promising nature appear with less frequency. The ideas then go on to say that higher wages relative to prices, and more or less steeply graduated income taxes, will serve to prevent such an accumulation of hoarded incomes, and by spreading the fruits of enterprise more widely, will assure the maintenance of a vigorous demand for all the production there is.

The arguments have much validity. Their principal weaknesses come from the fact that they overlook the long run requirement that, in a free society, the pattern of distribution must conform reasonably well with the relative productivity of the different income recipients. Unless it does, the inducement to greater effort and expanding productivity is gradually eroded, and we have a declining real income even though theoretically full employment conceivably might be achieved. In this respect, there is no difference between a complex economic system and a simple one. In either case, an individual or a group of individuals can obtain more than the amounts resulting from their productivity, only if someone else, or group of somebodies, get less than they have produced. If the resulting disparities are too great, effort tends to dry up, and the very basis of the productive system is undermined.

In this area of ideas, as in almost all others in the social sciences, there is no positive and unqualified answer. It may be true at times that a higher wage relative to prices would be a good thing. It is just as true, at other times, that a lower wage relative to prices is the thing that the nation needs. It may be true at times that a higher rate of progression in taxes is desirable. It is just as true, at other times, that a slower rate of progression may be required to encourage new ventures essential for the maintenance of prosperity. The important thing to realize is that this is a functional matter, in the first instance, and not an exercise in the metaphysics of equity, which is the basis that all too many people use in approaching these questions.

There is still another area in which it is believed that measures are available to prevent the development of excessive business decline. That is in the imposition of structural supports throughout the economy, designed to prevent the development of chaotic markets. Another set of terms for structural supports would involve the use of words like guarantees and subsidies. The many measures of this kind that have been developed over the past several decades, and that are now current in the nation's economy, extend all the way from the insurance of bank deposits to unemployment compensation, support of farm markets, and price maintenance, or so-called fair trade practice laws. We are now thinking of extending this kind of using to the international field by some sort of an insurance arrangement for foreign investment.

There can be no doubt that these measures do constitute a first line of defense against a severe contraction. Whether they shall prove to be desirable over a long period of time is yet to be determined. They cannot help but obscure the development and prolong the existence of distortions in the economy. These maladjustments will inevitably arise from the failure of the price structure to reflect adequately the pattern of community desires. We are interfering with one of the functions of free prices which is to direct economic effort into channels most desired by the community.

Some place along the line in the years ahead we may have cause to regret the imposition of these so-called structural supports, but the fact of the matter is that they are with us now, and for all practical purposes, they are likely to be with us for some time to come. That puts a strong emphasis on the requirement that the supports be developed to achieve specific functional purposes, with full knowledge of their limitations, and that they be kept as far removed as is humanly possible from the realm of political manipulation and back-scratching. That's a hard assignment to carry out but it is nevertheless an extremely important one. By the exercise of self-discipline, business and government could get together on this one all right.

This survey of three important fields of thought, namely investment and fiscal policy, distribution policy, and support policy, in which students have sought ways and means to prevent extreme fluctuations in the aggregate level of business activity, has been purposely presented in critical terms. That does not mean that nothing can be done in these areas. Indeed much has already been done. But it does us no good blandly to accept the idea that here is a ready-made set of economic tools that simply await the adoption of a proper attitude on the part of business and of government for their completely effective use. The tools are still extremely crude. We are using the single plowshare instead of the ten row tractor plow to cultivate our economic fields.

The 19th Century Thinkers

This examination of ways and means that might be available to business and to government to maintain prosperity would be incomplete, it seems to me, if it stopped with a recitation of those measures dealing directly with the business cycle as such. There is another area which business and government might explore together with profitable results. To explain it I want to go back and pick up an idea that used to preoccupy the thinking of a group of men known in England in the early 19th century as the Philosophical Radicals. It included such intellectual stalwarts as Jeremy Bentham, David Ricardo and the elder Mill. They were impressed with the possibilities of social improvement that came from what they believed to be the expansion potentials of markets. They had cycles in those days, but they were not particularly concerned with them.

The only limit to the market that they saw was provided by the decreased efficiency of the factors of production. The land could support no more than a given level of production. The inefficiencies of trying to get more per unit of capital after a certain point would assure that eventually the ceiling on well-being would be reached, and that ceiling would constitute an iron-clad limit against which the expansion of population might not advance.

Today we are not so concerned about this static concept of diminishing return on capital in this long run sense. We have seen a demonstration of almost magic results coming from our scientific laboratories, and from the increased productivity of modern soil handling methods and machines on the farm.

In the present state of our knowledge, it seems to me that nothing carries as great a promise of minimizing business contraction, and assuring a high level of business activity, as the possibility of a continuous and enduring growth in the total market. A strong growth factor cannot help but cushion recession and prolong periods of prosperity. If there are no discernible limits to this expansion from the side of the efficiency of production factors, then we must look to the side of demand for the restrictive and limiting elements.

Just why is there not today the vision of an almost limitless expansion of the market for the world's production? Why is it that we have lost a vision held by the Philosophical Radicals of the early 19th century, held even though they were impressed by the limits which they foresaw on production, while we foresee no such limits in the early future?

Perhaps it is because we have all become too preoccupied with our separate and special interests and have lost our feel for what is good for the whole. That appears to be true whether we are talking about separate group interests, separate national interests, or just our own personal interests.

It seems to be considered entirely moral today for nations to set up barriers that isolate their internal economies from the affairs of the world, without realizing that by so doing they are restricting the size of the world market. It seems to be regarded as entirely moral for specific groups within a nation to seek for and obtain special restrictions and protections which may provide a seeming immediate benefit to the favored group. But when all such favors and all such groups are looked at together, these restrictions cannot help but limit the size of a national market.

Freeing International Trade

There is much that government and business could do together in the freeing of the flow of trade, both within and outside of national boundaries. It would require a lifting of our respective sights from the immediate self-interest of ourselves as individuals, or of the self-interest of special groups, or even of the self-interest of nations, to the larger horizon of the greater good for mankind. Nothing, to my mind, could more surely lift the world from its present morass of despondency and regression, than the vision of a great expansion in the market for the productive effort of all peoples.

This may seem to some of you to be off of the immediate problem assigned to this panel discussion—namely, how can business and government get together to maintain prosperity? I submit that it bears directly on the issue here tonight. I believe that any attempt on the part of business and government acting together or acting individually, to maintain prosperity within the framework of a contracting or stable total market, will be an unsuccessful effort, and that our mistakes in this field would be more costly than our achievements would be beneficial.

In a very real sense, I feel that the most promising way to minimize business recession and to support business prosperity is to seek ways and means, business and government together, to expand the total market both within and across national boundaries. It may be that we are not sufficiently mature in our economic thinking to exercise the self-restraint required to place special interests behind the interests of the whole. We will not reach that stage of maturity in our thinking until we realize that our individual or our group interests, in the long run, can be most benefited by an expanding prosperity for all.

Railroad Transportation And National Defense

(Continued from page 6)

installed at the rate of only 6,000 per month against retirements in August, for instance, of 8,457. The backlog of freight car orders at the end of August, 1949 was only 27,681 against 105,959 on the same date last year and it is estimated that by the end of the year freight car production will be down 80%. In spite of all of the installation of new freight cars, the ownership on July 1, 1949, of the railroads was less than on the same date in 1945, and serviceable locomotives during the same period have declined in number by more than 5,000. Locomotives on order on Sept. 1, 1949, were 737 less than were on order Jan. 1, 1949.

Why this acceleration decline in commitments for additions and betterments? The reasons are obvious. The railroads as a whole have already pledged on obligations maturing in the next several years an amount equal to more than three-fourths their total depreciation charges. A prudent railroad manager will hesitate to make a commitment to meet annual payments on principal of money borrowed for the purchase of equipment in a greater amount than the annual depreciation charge on all equipment. Current financial statements of the railroads show that there remain out of depreciation charges to finance all additions and betterments only some $75 million per year. This means that the door of equipment financing is closing for many railroads and the sum total in the next few years to be financed from this source cannot exceed $300 to $400 million per year.

The other principal source of financing improvements and other capital outlay is in the form of retained earnings. Due to the drop in traffic and increased costs, present estimates are that the rate of return of net railway operating income on net property investment for the year will be only about 3¼%, a distressingly low rate. Net income, which is the income after all charges, and out of which further capital investments may be made, is estimated to decline in 1949 more than one-third from last year. The history of railroad management policies shows that on the average about one-half of net income is retained and is used largely for capital purposes. The decline in net earnings as a source of funds for capital outlay indicates a further curtailment in additions and betterments.

But this is not all. The net working capital of Class I railways is declining. By net working capital is meant the excess of current assets (not including material and supplies) over current liabilities. On Dec. 31, 1945, net working capital of Class I railways was $1,659,000,000. During the next three years to Dec. 31, 1948, it had declined more than 50%, to $755,000,000. In the first five months of 1949, it had further declined to $492,000,000, with the result that the ratio of current assets to current liabilities on July 31, 1949, was 1¼ to 1. This ratio is too low for comfort and indicates that little, if any, of existing current assets may properly to be diverted to fixed capital outlay. All of this adds up to the proposition that the sources from which the large capital outlays of the past few years have been derived are seriously shrinking up.

It is a well known fact that when we entered World War II, the railroads were suffering from years of under-maintenance. What the multiplied traffic of World War II did to roadway and equipment is well known. In spite of the tremendous job that has been done in the past four years in the effort to restore railroad plant and equipment, there exists today a condition of under-maintenance and deferred maintenance that will require hundreds of millions of dollars. It has been estimated that one railroad system alone will require $250 million to put its plant and equipment in proper condition.

These conditions I have described in no sense represent a failure of railroad management. Railroad management has been and is alert, courageous and progressive. More than anyone else, railroad management welcomes every opportunity to provide the facilities for the most efficient, the most effective and the most serviceable railroad transportation possible, not only for the purposes of defense, but in order to serve the peacetime needs of the American people. The failure is the failure of income and of available capital.

Time does not permit a discussion of the reasons for the failure of income. Rates of charges for transportation by rail have been increased, but the total of all increases is less than half of the percentage increase in costs of railroad labor and material. New equipment costs more than double the cost of equipment replaced and the depreciation reserve on the old equipment fails by half to provide the source of funds with which to pay for new equipment.

Competition by other forms of transport has developed. New modes of transport with greater flexibility of operations have attracted a substantial amount of traffic formerly moving by rail. Within the past quarter of a century, the privately owned automobile has become the predominant carrier of passengers. Within recent years, the airplane has come to occupy an important place in the transport of persons and goods. The trucks, with their flexibility of operations, now carry a substantial volume of goods moving from the producer to the consumer. All of these are facts in the fast moving panorama of transportation.

And yet, the railroads are, and will continue to be, the backbone of all transportation, carrying anything and everything to the four corners of the country. Railroad transportation will continue to be essential to the well-being of all of our people in peacetime and equally essential to our national defense in time of war.

What then are some of the answers to the problem of preserving a dynamic, a progressive and efficient rail transportation system?

A Proposed Transportation Policy

Briefly, I suggest six items:

(1) The adoption of a national transportation policy. Such a

policy has long been declared but never implemented with adequate legislation nor with the necessary machinery of government for its operation. The Transportation Act of 1940 declares that the policy shall be to provide for fair and impartial regulation of all modes of transportation and so administered as to recognize and preserve the inherent advantages of each. It shall also promote safe, adequate, economical and efficient service and foster sound economic conditions in transportation and among the several carriers, all to the end of developing, coordinating and preserving a national transportation system by water, highway and rail, as well as other means, adequate to meet the needs of commerce in the United States. The immediate and urgent task is to effectuate that policy so as to secure fair and equitable treatment to every form of transportation.

(2) Unification and coordination of governmental control and regulation. In no other way can a sound transportation policy accomplish the objective of eliminating inequities among the various forms of transportation, the avoidance of costly duplication of facilities and of properly allocating the cost of such services as between the users and the taxpayers.

(3) A recognition on the part of government and of the public of a new era in transportation. Railroad transportation is no longer the monopoly it was considered to be at the time that laws were made and regulatory bodies set up governing railroad transportation. It is today a highly competitive industry. No longer are all of the services performed by railroads to individual communities essential to the needs of those communities, nor are they justified by the costs involved. The recognition of a new era in transportation and of its present competitive nature would bring about a changed attitude on the part of lawmakers and regulatory bodies that would result in giving relief to the railroads from many uneconomic operations.

(4) Greater equality in tax treatment of the several forms of transportation. It is a well know fact that the railroads are more heavily taxed than other forms of transportation. In the depression year of 1933, the average taxes of Class I railroads totaled $1,106 per mile; in 1941 it amounted to $2,529 per mile; and in 1948, the national average was $4,796 per mile. The increase in the latter two periods in part arose from the imposition of heavy payroll taxes. in 1948, in the case of some railroads, social security taxes alone, the so-called fringe benefits, cost more than the total amount of dividends paid to the owners of the property.

In addition, some of the competing forms of transportation and the users of such transportation are the direct beneficiaries of facilities provided in part or in whole by the taxpayers. The irony of the situation is that part of these taxes that benefit other modes of transportation to the competitive disadvantage of the railroads are paid by the railroads. In 1948, out of the total net operating revenue of Class I railroads of $2,200 million, the amount of $1,028 million was paid by the railroads in taxes. After paying all other charges and $1,028 million in taxes, the net income left was only $698 million.

(5) An assumption by organized labor of the responsibility of labor to give an economic day's work in productive effort for a day's pay. Railroad labor is among the best, the most loyal and the most intelligent among all labor groups in this country. It enjoys a high level of income, good working conditions and the highest social security benefits of any large labor group. However, there has grown up over the years a vast body of labor rules and agreements that under application to present day modern and high speed transportation provide benefits that are not justified by productive work done. Railroad labor has now reached a position of achievement, of dignity and of responsibility that requires a substantial revision of some of the existing conditions of employment. Railroad labor cannot be unmindful of the economic fact that to survive as private enterprise, the railroads must earn an income sufficient to pay all costs and to attract the capital necessary for continuous improvement. Organized labor has now come of age and should accept some of the responsibilities for maintaining the American enterprise system out of which it has achieved so much. Neither railroads nor other forms of business can survive as private enterprises unless there is a fair exchange of productive effort for compensation paid.

(6) Railroad management must continue to multiply its efforts to further improve the efficiency of freight operations, the comfort, convenience and satisfaction of passengers, the safety of public and employees and service to American business and the public.

With the program I have indicated, I have full confidence in the future of the American railroad transportation system under private ownership. The alternative is the one accepted by much of the rest of the world, state ownership and operation. Should the railroads become nationalized, it will not be through the political choice of the American people, but will come, if it does, through the financial malnutrition of the railroads. And should it come, nationalization will take in all other forms of transport for hire and then will follow the chain reaction that will embrace a large part of our national life.

I present these problems of railroad transportation as matters of national concern not only for peacetime but in the eventuality of war. I commend the program I have indicated to your earnest consideration and solicit your support.

What's Ahead for Exports?

(Continued from page 16)

nite future, because in 1945 Europe needed food and tools?

It will be important to bear in mind that prior to 1941, except for the World War I period (1916-1920), and the last two years (1928-1929) just preceding the worldwide depression, exports never exceeded $5 billion in any year. In these two extremely prosperous peacetime years exports slightly exceeded $5 billion each year.

But ever since the active participation of the United States in World War II the dollar value of exports has greatly exceeded $5 billion each year and during at least two years (1944 and 1947) reached almost three times that figure, or $15 billion. In contrast, dollar value of imports has never reached $5 billion in any year except 1920 at the close of World War I and in 1947 and 1948, at the close of World War II. From these figures it is clear that the extreme imbalance in international exchange as between the United States and the outside world as a whole during the past eight years has been due very largely, if not wholly, to the extraordinary dollar value of exports of commodities from the United States. An indication of the extent of the excess of dollar value of commodity exports over imports will be shown by noting that during the past 10 years (1939 - 1948 inclusive) foreign value of imports has amounted to less than $40 billion, or $4 billion a year, whereas the total value of exports during the 10-year period amounted to more than $90 billion or $9 billion a year.

From this it would appear that the excess of exports over imports has averaged about $5 billion annually for 10 years or a total of more than $50 billion during the decade. Obviously, during that period there must have been a revolutionary change in the international financial structure as it pertains equally to the United States and all other parts of the world.

Without even touching upon the 30-year period 1909 to 1938, inclusive, preceding the recent 10 years of imbalance, it must be clear that a whole series of major dislocations have taken place which necessarily are the concern of governments not only of foreign countries but of the United States as well.

During the 20 years between World Wars I and II (1920-1940) the average dollar value of exports was less than $4 billion annually, whereas during the past six or seven years the average has been about $12 billion. Thus, the value of exports has been about three times as much annually during World War II, including the years since the conclusion of military operations, and about $8 billion a year in excess of previous long-time average experience.

Government Policies

Having reviewed in a preliminary way the extent and character of change in volume of exports from the United States in contrast with imports we must now examine the question whether the recent volume of exports has been or now is in harmony with sound (peacetime) economic policy or whether our own or foreign governments must necessarily find ways to regulate and perhaps even control or prohibit the volume of export trade from the United States or import trade into the other countries in some departments of our export trade.

Obviously, if producers in the United States continue to export at anything like the present volume without government objection they are certain to continue to look to the government to provide some way for foreign countries to pay for our excess of exports over imports. If this is done, then the governments of foreign countries must step in and regulate or even control their volume of imports unless an extraordinary increase in volume of invisible items (including gifts) takes place or unless there is an equally extraordinary increase in the movement of monetary metals or capital investment.

If the government of the United States (in response to widespread demand from the taxpayers of this country for lower taxes, better-balanced budgets, the elimination of foreign gifts and loans or reduction of the national debt) should withdraw government contributions amounting to billions of dollars, either in the form of donations or loans, then it would appear that exporters would themselves find it necessary to accept payment in the form of foreign investments or reduce exports to the extent necessary to bring about a natural balance in the total of international exchange.

This brings us close to such questions as the effect of a substantial reduction in the dollar value of exports upon wage rates, employment, prices and volume of production, particularly of minerals and metal products in the United States.

It must be obvious from this brief review of the subject that if the volume of exports (particularly in this field of heavy minerals and metal products) were reduced as a result of withdrawal of support from the Federal Government, the first result would be an increase in the volume of products available for the home market. Unless at the same time there was a corresponding increase in domestic demand for these products a basis would be laid for a downward adjustment of price levels in the domestic as well as in the foreign market in an effort to stimulate new uses or a transfer of use from the present uneconomic distribution in the world market to a greater and more economic use in the domestic market. Lower prices would tend to lead not only to greater uses in the domestic market but to economies to the consumers all along the line. One economy to consumers would include very distinct savings to all domestic taxpayers as a result of the reduction or elimination of export subsidies, grants to support the export trade and/or loans to domestic enterprises in order to stimulate this export trade to the detriment of the domestic economy and imbalance in world exchange.

Further Examination of Volume of Exports

In 1947 the balance of exports over imports had reached $8,696,390,000. By 1948 this balance of exports over imports had declined to $5,543,864,000. This was lower than during any year since our entry into World War II, i.e., since 1941. The question which presents itself is whether this gap may be further narrowed by a further reduction in the physical volume or the price level of United States merchandise exported. It must be enough here to note that the dollar value of United States merchandise exported declined nearly $2 billion between 1947 and 1948. The physical quantity decreased from an index number of 252 to an index number of 207. While physical quantity and total value were both declining substantially, it is to be noted that the unit value or price of exports advanced from an index of 126 to 135.

At this point the question naturally presents itself—if there is no great increase in the volume of imports in prospect and if the gap in the form of an excess of commodity exports over imports is not likely to be eliminated by an increase in the volume of invisible items or in the volume of international gold movements or American investments in foreign countries, or again through the process of currency manipulations, then in what field are reductions in the volume of exports likely to take place in the absence of government support through financial aids offered to foreign countries by our government and financed either through further increases in the national debt of the United States or through continued extraordinary tax levels imposed upon the people of this country by the Federal Government?

A glance at the statistical data available indicates that whereas exports of products of agricultural origin averaged $2,118,000,000 annually during the prosperous period 1926-30 that figure fell to a low of only $801 million in 1932 and an average of only about $900 million during the ten years 1931-40. There is no absolute basis for saying that the normal dollar value of exports of agricultural origin is slightly over $2 billion per annum or that it is slightly under $1 billion. Nonetheless, during the period of relatively satisfactory farm prices (1926-30) the dollar value of exports of farm products exceeded $2 billion per year whereas during the period of thoroughly unsatisfactory farm prices (during the decade 1931-40) the dollar value of exports averaged less than $1 billion. From this it might be concluded that if, as or when the prices of farm products are supported in such a manner as to produce satisfactory price levels, the dollar value of exports is double the average when prices are excessively low and unsatisfactory. In other words, it does not appear that a satisfactory price level of farm products is likely to lower the dollar value of exports. The reverse appears to be the truth.

During the war years 1941-45 the dollar value of exports of the products of agricultural origin returned to the average which prevailed during the prosperous period 1926-30—in other words, to an average of $2,262 million per year. It is significant that during the five year war period the average price of all exports was held down to a level only slightly above the average price during the prosperous years 1926-1930. From this it will appear that both in quantity and price exports of products of agricultural origin were about the same during the prosperous five year period 1926-30 as during the five year war period 1941-45.

Agricultural exports advanced to extraordinarily high levels during the postwar years 1946-7-8. In other words, during the three last years the dollar value of agricultural products has averaged not far from $5 billion a year. It may be put down as a probable fact that this very great increase in dollar value of exports of the products of agricultural origin has been due in considerable measure to the higher prices of farm products directly or indirectly supported by the government of this country. Whether these prices will be maintained over any considerable additional period so far as the export market is concerned remains to be seen. Suffice it to say that if quantity and prices of exports should return to the level of the prosperous years 1926-30 or the equally prosperous years 1941-45, then the dollar value of exports of products of agricultural origin would decline as much as $2 or $3 billion per annum.

It must be acknowledged that during the postwar period the United States had a tremendous task of relief to perform, and therefore that a substantial part of the increase in dollar value of exports of agricultural products had to do with relieving actual hunger in war torn areas, especially in countries of Western Europe with a population roughly double that of the United States. If the countries of Western Europe have largely, if not completely, restored their agricultural operations and if they are no longer able to find dollars with which it buy American surplus farm products, and if the Government of the United States should substantially reduce government purchased products shipped to European countries, then it would clearly follow that the dollar value of exports of products of farm origin would likewise decrease as much as an average of $2 billion a year during the years just ahead.

But curtailment of exports of products of agricultural origin must necessarily be very much less than the prospective decline of exports of products of other than agricultural origin. During the prosperous era 1926-30 exports of non-agricultural products averaged slightly more than $2,500 million annually. This fell to only about $775 million in 1932 and only slightly exceeded $1 billion during the five year period 1931-35. But exports of non-agricultural products recovered substantially during the five years 1936-40 nearly to the levels of 1926-30. It is easy to understand why the increase took place dur-

(Continued on page 38)

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market top signs starting to reappear. Some more advance indicated, but down signals are starting to fly.

It's beginning to look like the old merry - go - round all over again. If you've got the brass ring, you'll get an extra ride. If not you'll be through. But even with the ring, the extra ride may make you a lot dizzier than you bargained for.

* * *

All this fol-de-rol means that the market has again reached the stage where it's being talked about as the new discovery; a condition that usually spells danger, even if the danger isn't imminent.

* * *

During the past week I took some time to go over the averages and did a cross-check of various brokers who do a large public business. I discovered while the averages were up to around 190, the majority of equities in brokerage accounts haven't increased beyond the 180-183 figure. The only conclusion that can be made is that most of the people simply haven't the stocks that comprise the averages, or bought them close to the current market top.

* * *

A few weeks ago when I first started walking the bullish line, I said that strikes were not bearish. Carrying this opinion to its logical conclusion, a settlement, is therefore not bullish.

* * *

This doesn't mean that prices are going to turn down right away. There are still a couple of unused oxygen tanks standing by. Copper will go up a few cents; crude oil will go up and the chances are that steel may hike its prices also. The immediate reaction to such events should add a few more dollars to the averages. What the long-term reaction to such price hikes will be is another matter.

* * *

I feel that a market with enough underlying technical factors sufficiently strong to carry it from 178 to 190 in a strike of major importance, has given up so much strength that it won't be able to withstand a so-called period of placidity. Once a strike is settled it theoretically makes everything perfect. The attainment of a minor point of perfection is in itself a danger sign. Perfection presupposes no further improvement. If there's no further improvement, where can prices go?

* * *

You have a list of stocks to buy that appeared in last week's column. In view of the outlook, forget the list. You are also long of two stocks, American Smelting and Denver Rio Grande. The rail was bought between 22 and 23. It's now about 28. Raise your stop to 26. Smelters came in between 45 and 46. It's now about 48½. Raise your stop to 47. If either stop is taken then forget the market for the time being. The merry - go - round is now grinding to a stop.

More next Thursday.

—Walter Whyte.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Central Savings Bank Holds ¼ Century Dinner

The Quarter Century Club of Central Savings Bank held its third annual dinner at Luchow's Restaurant, Wednesday, Oct. 26.

James T. Lee, President of the bank, presided as toastmaster and presented gold service pins and savings bonds to new members Mack Fisher, Martin Schuler, Everett V. Lanthier and Ernest M. E. Klemm.

Membership in the club now totals 25. Of these Louis Watjen, F. W. Lafrentz, Robert A. Drysdale, Eugene Hennigson and Otto Strippel are Trustees of the bank.

The longest service record is held by Chas. H. Kreeb, Assistant Vice-President, who has been associated with the bank for 46 years. Other officers with outstanding service records include Otto Strippel, Vice - President, Treasurer and Trustee, who has completed 45 years' service, and Carl Cordes, Assistant Vice-President, who has been with the bank 42 years.

New Pennington, Colket Branch

MANHASSET, L. I., N. Y.—Penington, Colket & Co. have opened a branch office at 351 Plandome Road under the management of Hugh Maher.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

LA JOLLA, CALIF.—Harold F. Brown has become affiliated with Merrill Lynch, Pierce, Fenner & Beane, 1028 Wall Street. He was formerly with Buckley Brothers and Walston, Hoffman & Goodwin.

What's Ahead For Exports?

(Continued from page 37)

ing 1938, 1939 and 1940, since foreign nations either actually engaged in war or rapidly preparing for war took advantage of the opportunity to secure supplies from all parts of the world. Undoubtedly, during that period (1936-40) foreign countries were able to finance their own purchases from the United States. In other words, the restoration of what might be called a normal export level took place not by financing of the United States but because of preparation of foreign countries for war or the actual beginning of war operations.

During the war years 1941-45, however, the dollar value of exports from the United States of non-farm products trebled. In other words, while the average dollar value of exports of this group of products was under $2½ billion annually during 1936 1940 it exceeded $7½ billion annually during 1941-45. Obviously, most of this increase in volume had to do with participation not only of foreign countries but also of the United States in the operations of World War II.

During 1946 exports of non-farm products declined from slightly over $7½ billion to about $5 billion, but that decrease was not to be maintained. In 1947 exports of non-agricultural products mounted well above $9 billion and in 1948 to almost $8 billion. Thus, it is obvious that the dollar value of non-farm products during 1947 and 1948 was between three and four times as great as during the prewar prosperous period 1926-30. If there is to be a substantial reduction in dollar value of exports it would appear that the decline must take place in the field of non-agricultural commodities.

It will be enough here to note that in the field of non-metallic minerals, which include coal and related fuels as well as petroleum and its products, exports in 1947 and 1948 were almost exactly double exports in the earlier prosperous period 1926-30. It may be that this is one department where exports may return more nearly to normal levels when more nearly normal conditions again prevail in the world.

Again, exports of metals and manufactures, excluding machinery and vehicles, were at least three times as great during 1947 and 1948 as during the five years 1926-30. In other words during the prosperous period after World War I exports of this group of products averaged less than one-half billion dollars annually whereas during 1947 exports of this group of products went beyond one and one-half billion dollars.

The same story in a more exaggerated form is found in the case of machinery and vehicles. During 1926-30 exports averaged less than a billion dollars annually. During the years 1947 and 1948 exports averaged more than $4 billion annually—in other words, an average of more than $3 billion a year above the levels which prevailed during the prosperous years 1926-30.

The question must necessarily present itself whether the Federal Government of the United States will continue to tax the American citizens in order to raise funds to send machinery, automobiles and other vehicles to European or other foreign countries on any such scale as that which has prevailed during the last two years, especially since this extraordinary process of financing and exporting machinery, automobiles and other vehicles has undoubtedly at the same time been responsible for not only maintaining but substantially increasing the price level of these commodities in the American market, thus increasing cost of living to the entire American population.

Not only have the people of the United States been taxed several billion dollars annually to provide funds with which to export these products to foreign countries, but the same American people have been forced to pay the increased or higher prices which have prevailed in this country because of the policy of withdrawing such tremendous quantities from the American market for the benefit of foreign trade, only to upset the international exchange ledger and start new economic turmoil. Incidentally, the average wholesale price for all exports during the war years 1941-45 stood at an index number of 97 compared with 86 during the prosperous years 1926-30. During the year 1947 the index number had crept up another 30% to an average index number of 126 and during the last year (1948) the index number had crept up further to an average of 135. This is an increase of 40% over the price level of the war years added to the tax burden carried by the American people.

In conclusion, it must be evident from this analysis of the export side of the picture that the time is here for a much more detailed review and public appraisal of government policies which continue to levy taxes, appropriate funds and export vast quantities of materials to foreign countries—for other purposes than to relieve hunger, cold or other basic human wants with such products as foods, textiles or even tobacco, which are the major items of export from agricultural sources. In other words, while the increase in exports of products of agricultural origin during the last two years over previous prosperous periods has been about $2½ billion ostensibly to relieve foreign needs for food, textiles and tobacco, exports of non-agricultural products (largely minerals, metals and manufactured products derived therefrom) have increased something like $6 billion on an annual basis during the past two years, compared with the same basic prosperous period, 1926-30.

Government-Business Relations—Lessons From the Past

(Continued from page 15)

encourage the activities of merchants. Strangely enough the countries where it was most skillfully carried out were often less prosperous and progressive than those in which the bureaucrats were less skillful or less powerful. In England the woolen industry, which was especially watched by the paternal eye of the State, did very poorly as compared with the cotton industry, which the legislators had overlooked in the reign of Queen Elizabeth and never did catch up with. In France, the merchants were so overloaded with well-meant governmental regulations intended mainly for their own good, that when Colbert, Louis XIV's Minister of Finance, asked what more he could do for them one of them answered "Laissez nous faire," which might be interpreted either as meaning "Leave us alone" or "Let us produce."

In 1776 two events occurred which in a short period put Mercantilism out of business; one was the American Declaration of Independence, and the other was the publication of Adam Smith's "Wealth of Nations." The "Wealth of Nations" contains a detailed description of the abuses of Mercantilism. You might be surprised to find, if you read the Declaration of Independence again, that it also contains a list of the abuses of economic planning, which were considered serious enough to justify armed rebellion. The Declaration set up a nation where the principles of free enterprise expounded by Smith could be put into operation, and also, by lopping off Britain's most important colonial possession, paved the way for free enterprise in Britain. Its success in those two countries caused France and Germany to fall into line, or at least to go through some of the motions. There is some reason to suppose that most of the German theorists who wrote in favor of free enterprise did not wholly understand it, and even more reason to suppose that the conversion of the rulers was only partial and temporary. But for a century the prevailing economic philosophy in Western Europe and the United States was "liberalism," which was not in those days understood to mean either governmental economic planning or the welfare state or socialism, but rather their opposite.

There is no need here to repeat what is so well known to all of you—the enormous increase in population from 1815 to 1914, the unaccustomed long periods of peace, the great advances in real wages and the standard of living of the poor, the great scientific discoveries. After stagnating for 1800 years civilization awoke and progressed far more rapidly than had ever been deemed possible.

State Socialism Under Bismarck and in Britain

But the innate urge for power and the consciousness of superior wisdom which almost universally characterizes government officials, and those who wish to become or to advise government officials, could not be denied. Bismarck in the 1880's introduced social benefits and other forces of state socialism into Germany. The Liberal party in Great Britain followed in a hesitating manner in the first decade of this century, and thus the Liberal party died and was succeeded by the Socialists. In this country a horde of speakers and writers, of the sort to whom the grass always appears greener on the other side of the fence, joined the avowed Socialists in advocating similar steps here. The Communist tyranny in Russia was held up as a model for us by many publicists whose views on public affairs, for some strange reason, still find listeners. The meaning of the word Liberalism was changed; individual self-reliance was condemned as anti-social or at least outmoded; democracy was redefined to mean the absolute power of the majority (which was contrary to the principles of our Constitution and had been denounced as immoral by all respected political philosophers from the time of Plato to 1929).

Our Own New Era

The New Era of the late 1920's was the result of an unsuccessful attempt by our monetary authorities to use monetary manipulation to smooth out the business cycle, coincident with a flagrant neglect of sound fiscal policies by Britain, France, Germany and other nations. It was succeeded by the New Deal, which signally failed to recognize the cause of the economic collapse of 1929 and proceeded to reform the system along the lines that had been tried and failed in the 18th century.

Mercantilism was revived, and John Law and Bernard de Mandeville became heroes again, although their doctrines were often advocated by persons who had never heard of their originators. Consequently the depression of the 1930's was the longest in the history of the United States. The initial decline was probably no more severe than in 1839 or 1873 or 1893, but the recovery, in spite of or more likely because of the government's unprecedented efforts to encourage it, was the slowest and most expensive we have ever known. And now we see politicians urging essentially the same methods to maintain prosperity that have never done so in the past and that failed so flagrantly to help recovery in the nine years preceding the war.

One outstanding feature of government attempts to aid business is that they so frequently work in reverse. Let us consider a few from our recent history.

Business Aids in Reverse

Take first the matter of security of investments. It used to be possible for a man to invest in government bonds with an assurance of a steady income bearing some reasonable relation to his investment. Now it is notorious that the yields are low, because of the governmental policy of maintaining a steady market, and it is equally notorious that the purchasing power of that income has declined drastically for many years and threatens to decline further.

Old-age security for wage earners and a few others has been established by law, but the government's policies are such that the money promised will buy less than expected; the money amounts will have to be increased to compensate for the higher cost of living; and it is likely that those very increases will cause taxes and the cost of living to go still higher. Meanwhile the non-wage earners, and persons with incomes over $3,000 have to struggle harder than ever to provide their own old-age security. Under such circumstances it is a wonder that anyone continues to try to save, but most of us feel compelled to act like squirrels, burying nuts in all sorts of places in the wild hope that when winter comes we shall be able to find a few of them. The net results of governmental policies as a whole has been to reduce the prospects of old-age security for the wealthy and the middle classes and the farmers, domestic servants, and self-employed, while there is grave reason to doubt that it has improved the prospects of old-age security for its alleged beneficiaries.

Next let us consider the preservation of farming as a way of life and of farmers as a desirable element in the community. But why have we admired farmers? Precisely because they were supposed to typify the virtues of rugged individualism, enterprise, self-reliance, closeness to nature, industriousness, thrift, and common-sense conservatism. To preserve these virtues we have set up a system of loans and price guarantees and crop controls that reduce or eliminate entirely the need for individualism, enterprise, self-reliance, industriousness and thrift; compel the farmer to abandon his common-sense conservatism, and bring him closer to Washington than to nature.

Take another example: the TVA. What can be said in defense of a scheme that in the guise of flood control permanently floods a greater acreage than the area usually flooded for a few weeks in the spring? Or a scheme that spends so much money on dams, etc., that the annual carrying charges are greater than the average annual loss from floods before the dams were constructed?

Education has always been cherished more highly in the United States than elsewhere, and for many decades we have stressed the value of education in developing character and the spirit of enterprise. Our young people have been encouraged to strive for higher education because it offered great rewards, both material and spiritual, and common-school education has been considered essential for intelligent citizenship. The rewards of education were considered to be greater if they were obtained in part at least by the student's own exertions. But we are now proceeding to make higher education so common that it will give its possessors few if any material advantages, and the spiritual advantages that might result from a broad liberal education are not provided by the narrow technical courses generally favored by governmental administrators and subsidized students. We are turning out thousands of lawyers, writers, engineers and other trained or semi-trained intelligentsia whose best hope of making a decent living is to get a government job. Is it surprising that many of them think that if the government paid for their education the government is morally bound to make a job for them? Worse still, the dependence of schools on the Federal Government gives those in control of the Federal Government immeasurable opportunities to strengthen their control by propaganda directed against minds at their most impressionable age. How strange that some of the advocates of Federal aid to education are also found among those who insist on the right of teachers to teach extremist doctrines irrespective of the wishes of their employers and their students' guardians!

Devices Proved Negative

In the matter of material progress—more wealth and income for the people, or more people for cannon fodder — governments have tried all sorts of devices and the net result has usually been negative. The attempt to subsidize one industry or one element of the population has usually resulted in pushing down all other elements. It would take hours to exhaust the list of cases. The most recent were the officially encouraged wage increases of 1946, 1947 and 1948, which were followed by corresponding increases in the cost of living.

All this is not to say that government has no legitimate functions with respect to business, or that it cannot perform these functions better if business is consulted, just as any legislative or executive action is likely to be better judged if interested parties are consulted. Likewise businessmen in managing their own affairs occasionally have to make decisions which might be more in the interest of the nation and even more in their own interests if they were aware of governmental policy in related fields. The outstanding example is the matter of national defense and foreign relations, but there are possibilities also in the fields of public health and public morals.

Beyond arrangements for mutual advice there is little that businessmen can do, in their capacity as businessmen, to cooperate with government, except to obey the laws and to fight attempts by overzealous bureaucrats to extend laws beyond the intent of Congress or the limitations of the Constitution. It is all very noble to talk about businessmen considering themselves as trustees of the public; they are not trustees; they were never elected to be trustees of the public, and most of them are no more qualified to act as such than the government officials. The word trustee bears for me an invidious connotation. It implies that the trustee's ward (*cestui qui trust* as the lawyers quaintly express it) is incapable of looking out for himself. Businessmen are agents with limited powers rather than trustees even for their stockholders. With respect to their employees and customers they are not even agents. I would add also that government officials, except in an absolute government, cannot properly be considered as trustees, but merely as agents trusted to carry out their assigned duties.

If businessmen wish to be statesmen they should do so outside of business hours, and allow themselves to be judged on their personal qualifications and not as representatives of their corporations, still less as representatives of their industry, or of a vague concept called "business." This is not a corporative state and I hope it never will be.

As Adam Smith and all other economists of the liberal school have always admitted, there are certain functions, such as defense, the maintenance of order, the maintenance of standards of weight, measure and money, the enforcement of contracts, the suppression of fraud and violence, that must be performed by the government because their performance requires the use of force, which cannot safely be left in the hands of private parties. There are other functions universally admitted to be desirable or necessary that must be performed at least in part by the government because no private person could afford to provide them adequately, such as the maintenance of lighthouses, channels, roads, bridges, education. These categories might justify some limited activities in production or trade, such as the manufacture of atom bombs and other materials for defense, or the sale of goods at post exchanges.

But the bulk of economic activities are those which produce or distribute goods for sale to consumers, or to other businessmen who use them for the same purpose. The welfare of the nation is best served by allowing consumers to choose what they shall buy and from whom, and the government's proper function is only to see that they are protected from misrepresentation of quality and quantity. This requires that producers and sellers be given free rein in their attempt to win the consumers' favor. Here again it is taken for granted that force and fraud shall be prevented and contracts shall be enforced, and the government must see that that is done. But it is not for the public interest if the government steps in to help one businessman or one class of businessmen in their competition with others. If government helps the more efficient its help is not needed; if it helps the less efficient its efforts raise costs and reduce the national income. And if the government's interference takes the form of production of goods for sale by government agents using government capital, we can be sure that it will be inefficient and costly by comparison with what private entrprise would have been, although misleading government accounting may conceal that fact for a time. If, however, as a result of the government's own mistakes a large number of citizens get into grave difficulties, the government is morally obliged to give them temporary assistance.

Governments are after all merely aggregations of officials. These officials are merely men; election or appointment to public office has no sacramental effect and confers no supernatural powers. As men they are fallible, and as men they will not work so hard for the intangible public welfare as they would for their own advantage. They will not publicly admit mistakes which as private businessmen they would speedily admit to themselves and attempt to correct. They prefer to cover them up, or answer complaints by alleging that they had not been granted sufficient funds or sufficient power. This is the crux of the matter. There will always be some official or group of officials that will in their appetite for power constantly strive to obtain authority over more and more of the citizens' activities, while proclaiming all the time their devotion to the Citizens' interests. Their primary aim is to remain in office, perhaps only by using their public position to slander their opponents and by using taxpayers' money to buy votes, but it is only a short step to one-party elections with gunmen at the polls. It is not hard for determined men with all the resources of a totalitarian government behind them to deceive millions of voters. Sometimes they even deceive themselves.

The only safeguard that has been devised against the possibility of such ambitious persons getting control of a nation in times of great stress, or retaining permanently powers that have been granted only for temporary purposes, is to decentralize the source of authority. Our Constitution did that very well, as long as it was observed. It separated church from state, thus leaving outside of the government a possible rallying force for those opposed to governmental policies. It apportioned the functions of government between the central government and the states—an apportionment which has gradually broken down, partly because the representatives of greedy states surrendered their powers in return for a promised share in the wealth of other states, and partly because persons anxious to obtain public money for the support of what they conceived to be good causes found it easier to get one law or one big appropriation from Washington than 48 laws or 48 small appropriations from 48 legislatures. Finally it listed certain rights of the individual citizen which were not to be encroached upon by the central government, or in some cases by the state. How many persons who prate about the Bill of Rights realize that everyone of them is a prohibition directed against the government, and not one is a guarantee that any thing shall be provided to the individual by the government? But if the central government manages to make a large number of citizens its debtors, and another large number its employees, and still another large number recipients of government favors, the road will be open for a totalitarian dictator, or dictatorial oligarchy, whether it be composed of conscious self-seekers or sincere fanatics.

A Summary

What I have said may be briefly summarized in six sentences:

(1) Government controls of business have usually been advocated in their beginning as being in the general interest of the people, or even in the interest of the business that is to be controlled.

(2) Frequently they have operated in the opposite direction.

(3) Whether successful or not they have usually been made stronger and extended in scope, partly because of the rulers' ambition and partly because the people have been educated or numbed into accepting them, and have forgotten their ancestors' traditions of freedom.

(4) The century 1815 to 1914 was the freest of all historical periods from governmental controls, and was likewise the period of greatest growth in prosperity, both here and in most other civilized countries.

(5) Nothing has changed the natures of government officials or the tools at their disposal to such an extent as to suppose that governmental controls will work any better in the future than in the past, except in the matter of propaganda and thought-control, which is more skillful in suppressing statements of skepticism or discontent.

(6) The only remedy for the abuse of government power is to split it up—a fact which was well understood by the framers of our Constitution, and especially those who insisted on the now-forgotten though never-repealed 10th amendment.

A Constructive Program

Now, to end with what is generally called a constructive note or positive program, I would suggest that the best ways for the government to cooperate with business at the present time for the purpose of maintaining prosperity would be for it to revert to the traditional functions of American Government, within the limits of the Constitution, and specifically:

(1) To spend money only for purposes plainly more important than those for which the money would be spent if left in the hands of the taxpayers.

(2) To balance the budget and restore a sound currency.

(3) To withdraw from the money lending business with due regard for existing commitments, and to reform the banking system so that private bank lending shall not be carried to excess, since excessive credit is the chief cause of severe depressions.

(4) To publish honest accounts of all its enterprises, showing all the contingent liabilities, and making adequate allowance for depreciation, amortization, etc., and complete statements of tax revenue lost by all taxing bodies because the enterprises in question are publicly and not privately owned. In this way only will the voters be enabled to form a sound judgment as to the advisability of further extensions of government enterprises, or whether they shall be turned over to private industry or to the states.

(5) To enforce its laws equally against capital and labor.

(6) To clear up the present mess in the matter of old-age insurance by making it apply uniformly to all classes of citizens. I would suggest replacing the existing scheme by setting up a new one applicable to everyone, the premiums for which should be collected in conjunction with the income tax. Have everyone submit an income tax return, as has been done for many years in Delaware. On this return the income tax would be payable as at present, with such rates and exemptions and withholding arrangements as Congress may desire. In addition payments of insurance premiums should be made on these returns, with credits for such withholdings as may have been made by employers, and the amount of pension ultimately received by each beneficiary should correspond actuarially with the premiums paid by him. This would be a real national insurance scheme both universal and self-supporting, whereas the present set-up is neither. Incidentally it would probably increase the yield of the income tax.

Frank Godfrey Opens

EDWARDSVILLE, ILL.—Frank Godfrey has opened offices in the Edwardsville National Bank Building to engage in the securities business.

With Samuel & Engler

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO — Clarence O'Brien is with the Samuel & Engler Co., 16 East Broad Street.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Nov. 6	8.8	9.0	8.2	98.9
Equivalent to—					
Steel ingots and castings (net tons)	Nov. 6	162,000	166,000	151,000	1,782,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct. 22	5,072,100	5,043,550	4,875,400	5,643,500
Crude runs to stills—daily average (bbls.)	Oct. 22	†5,375,000	5,324,000	5,377,000	5,603,000
Gasoline output (bbls.)	Oct. 22	18,446,000	17,978,000	18,152,000	17,238,000
Kerosene output (bbls.)	Oct. 22	2,030,000	1,865,000	1,910,000	2,077,000
Gas, oil, and distillate fuel oil output (bbls.)	Oct. 22	6,856,000	6,752,000	6,555,000	7,228,000
Residual fuel oil output (bbls.)	Oct. 22	7,609,000	7,659,000	7,419,000	9,199,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Oct. 22	102,990,000	102,767,000	103,262,000	91,074,000
Kerosene (bbls.) at	Oct. 22	28,340,000	27,758,000	26,815,000	27,214,000
Gas, oil, and distillate fuel oil (bbls.) at	Oct. 22	89,030,000	86,952,000	81,414,000	75,919,000
Residual fuel oil (bbls.) at	Oct. 22	69,673,000	69,081,000	68,143,000	60,247,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 22	§589,088	§583,913	§661,472	926,976
Revenue freight received from connections (number of cars)	Oct. 22	§515,272	§506,766	§562,510	729,450
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	Oct. 27	$135,843,000	$121,542,000	$163,897,000	$179,052,000
Private construction	Oct. 27	72,662,000	62,894,000	94,216,000	103,421,000
Public construction	Oct. 27	63,181,000	58,648,000	69,681,000	75,631,000
State and municipal	Oct. 27	55,487,000	51,459,000	63,388,000	50,554,000
Federal	Oct. 27	7,694,000	7,189,000	6,293,000	25,077,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Oct. 22	2,540,000	2,390,000	2,025,000	12,528,000
Pennsylvania anthracite (tons)	Oct. 22	1,230,000	1,259,000	37,000	1,187,000
Beehive coke (tons)	Oct. 22	2,500	*1,800	5,000	148,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 22	295	*290	292	344
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 29	5,432,753	*5,430,338	5,521,238	5,555,254
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 27	221	181	181	104
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Oct. 25	‡3.705c	3.705c	3.705c	3.720c
Pig iron (per gross ton)	Oct. 25	$45.88	$45.88	$45.88	$46.91
Scrap steel (per gross ton)	Oct. 25	$25.58	$26.50	$27.92	$43.16
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 26	17.325c	17.325c	17.325c	23.200c
Export refinery at	Oct. 26	17.550c	17.550c	17.550c	23.425c
Straits tin (New York) at	Oct. 26	95.000c	96.000c	103.000c	103.000c
Lead (New York) at	Oct. 26	13.000c	13.000c	14.750c	19.500c
Lead (St. Louis) at	Oct. 26	12.800c	12.800c	14.600c	19.300c
Zinc (East St. Louis) at	Oct. 26	9.250c	9.250c	10.000c	15.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	Nov. 1	103.97	103.92	103.90	100.69
Average corporate	Nov. 1	115.04	115.04	114.85	110.52
Aaa	Nov. 1	120.84	120.84	120.84	115.63
Aa	Nov. 1	119.00	119.00	119.00	114.08
A	Nov. 1	114.27	114.27	114.08	109.60
Baa	Nov. 1	106.56	106.74	106.56	103.64
Railroad Group	Nov. 1	109.42	109.60	109.42	106.39
Public Utilities Group	Nov. 1	116.61	116.61	116.22	110.88
Industrials Group	Nov. 1	119.20	119.20	119.41	114.66
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	Nov. 1	2.21	2.21	2.21	2.45
Average corporate	Nov. 1	2.90	2.90	2.91	3.14
Aaa	Nov. 1	2.61	2.61	2.61	2.87
Aa	Nov. 1	2.70	2.70	2.70	2.95
A	Nov. 1	2.94	2.94	2.95	3.19
Baa	Nov. 1	3.36	3.35	3.36	3.53
Railroad Group	Nov. 1	3.20	3.19	3.20	3.37
Public Utilities Group	Nov. 1	2.82	2.82	2.84	3.12
Industrials Group	Nov. 1	2.69	2.69	2.68	2.92
MOODY'S COMMODITY INDEX	Nov. 1	338.6	339.7	343.8	399.7
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Oct. 22	195,662	191,375	192,289	161,905
Production (tons)	Oct. 22	206,400	208,450	202,374	189,737
Percentage of activity	Oct. 22	94	94	91	95
Unfilled orders (tons) at	Oct. 22	411,834	422,552	356,741	359,739
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	Oct. 28	126.0	126.1	128.0	143.0
STOCK TRANSACTIONS FOR THE ODD-LOT ACCOUNT OF ODD-LOT DEALERS AND SPECIALISTS ON THE N. Y. STOCK EXCHANGE—SECURITIES EXCHANGE COMMISSION:					
Odd-lot sales by dealers (customers' purchases)—					
Number of orders	Oct. 15	19,568	20,648	20,147	15,048
Number of shares	Oct. 15	584,233	625,857	595,563	442,097
Dollar value	Oct. 15	$21,872,404	$23,460,428	$23,482,936	$18,094,584
Odd-lot purchases by dealers (customers' sales).					
Number of orders—Customers' total sales	Oct. 15	22,421	23,389	23,865	15,365
Customers' short sales	Oct. 15	164	182	218	74
Customers' other sales	Oct. 15	22,257	23,207	23,865	15,291
Number of shares—Customers' total sales	Oct. 15	628,292	654,991	661,842	409,293
Customers' short sales	Oct. 15	6,069	6,484	7,754	2,671
Customers' other sales	Oct. 15	622,223	648,507	654,088	406,622
Dollar value	Oct. 15	$20,844,394	$12,501,537	$22,057,937	$15,198,884
Round-lot sales by dealers—					
Number of shares—Total sales	Oct. 15	217,780	242,250	247,300	122,350
Short sales	Oct. 15	------	------	------	------
Other sales	Oct. 15	217,780	242,250	247,300	122,350
Round-lot purchases by dealers—					
Number of shares	Oct. 15	190,790	215,070	219,630	173,050
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Oct. 25	152.5	152.1	152.4	164.8
Farm products	Oct. 25	158.5	159.6	159.8	182.6
Foods	Oct. 25	161.7	*160.5	159.6	176.7
All commodities other than farm and foods	Oct. 25	144.8	144.9	145.3	153.4
Textile products	Oct. 25	137.6	137.6	138.1	147.9
Fuel and lighting materials	Oct. 25	131.2	131.2	130.7	137.3
Metals and metal products	Oct. 25	169.0	169.2	170.3	172.7
Building materials	Oct. 25	188.8	189.3	189.5	203.5
All other	Oct. 25	116.1	116.5	116.7	134.6
Special indexes—					
Grains	Oct. 25	153.9	152.1	158.4	168.6
Livestock	Oct. 25	198.7	197.1	199.1	245.3
Meats	Oct. 25	223.5	218.2	220.8	251.5
Hides and skins	Oct. 25	204.0	201.1	198.9	193.9

*Revised figure. †Includes 460,000 barrels of foreign crude runs. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive. §Reflects effect of five-day week effective Sept. 1, 1949.

	Latest Month	Previous Month	Year Ago
AMERICAN ZINC INSTITUTE, INC. — Month of September:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	70,392	73,819	64,721
Shipments (tons of 2,000 lbs.)	70,077	74,330	68,850
Stocks at end of period (tons)	85,203	84,888	41,117
Unfilled orders at end of period (tons)	35,009	41,335	50,939
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS — U. S. DEPARTMENT OF COMMERCE — Month of August (000's omitted)	$189,600,000	$493,600,000	$215,300,000
COAL OUTPUT (BUREAU OF MINES)—Month of September:			
Bituminous coal and lignite (net tons)	19,380,000	37,752,000	52,158,000
Pennsylvania anthracite (net tons)	2,084,000	*3,707,000	5,015,000
Beehive coke (net tons)	44,300	*45,300	617,200
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of Sept. 30 (000's omitted)	$265,000,000	$230,000,000	$305,000,000
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of August:			
Shipments (short tons)	97,472	70,129	110,679
Unfilled orders at end of month (short tons)	311,923	348,239	631,887
CONSUMER CREDIT OUTSTANDING—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Estimated short-term credit in millions as of July 31:			
Total consumer credit	$16,185	*$16,122	$14,723
Instalment credit	9,322	*9,114	7,738
Sale credit	5,012	*4,867	3,849
Automobile	2,614	*2,499	1,689
Other	2,398	*2,368	2,160
Loan credit	4,310	*4,247	3,889
Noninstalment credit	6,863	*7,008	6,984
Charge accounts	3,130	*3,282	3,184
Single payment loans	2,768	*2,752	2,840
Service credit	965	*974	960
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939 = 100)—Month of September	275.1	284.5	294.2
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES:			
Lint—Consumed month of September	709,958	664,133	738,794
In consuming establishments as of Sept. 30	744,602	679,983	1,281,890
In public storage as of Sept. 30	6,136,997	3,954,662	4,147,278
Linters—Consumed month of September	140,720	136,366	109,163
In consuming establishments as of Sept. 30	221,400	228,290	144,091
In public storage as of Sept. 30	49,127	47,645	65,634
Cotton spindles active as of Sept. 30	19,975,000	19,747,000	21,305,000
COTTON SPINNING (DEPT. OF COMMERCE):			
Spinning spindles in place on Sept. 30	23,425,000	23,407,000	23,832,000
Spinning spindles active on Sept. 30	19,975,000	19,747,000	21,305,000
Active spindle hours (000's omitted) Sept.	8,725,000	8,267,000	9,414,000
Active spindle hrs. per spindle in place, Sept.	396	377	420
FAIRCHILD PUBLICATION RETAIL PRICE INDEX — 1935-39=100 (COPYRIGHTED) AS OF OCT. 1:			
Composite index	137.1	137.3	141.9
Piece goods	128.8	129.5	142.7
Men's apparel	138.8	139.1	140.6
Women's apparel	130.9	130.9	137.4
Infants' and children's wear	130.1	130.1	130.7
Home furnishings	144.9	145.0	149.6
Piece goods—			
Rayons and silks	116.5	116.7	130.8
Woolens	139.7	139.7	139.7
Cotton wash goods	144.0	146.1	163.1
Domestics—			
Sheets	165.4	165.0	182.6
Blankets and comfortables	141.9	141.6	141.0
Women's apparel—			
Hosiery	102.9	103.2	108.2
Aprons and housedresses	142.3	142.3	146.9
Corsets and brassieres	131.7	131.7	132.5
Furs	138.6	138.0	162.3
Underwear	133.6	133.6	139.4
Shoes	140.4	140.4	141.4
Men's apparel—			
Hosiery	139.5	139.5	140.2
Underwear	152.2	153.1	155.8
Shirts and neckwear	129.5	129.5	132.9
Hats and caps	127.4	127.6	127.8
Clothing, including overalls	131.4	131.7	132.2
Shoes	168.0	168.3	169.6
Infants' and children's wear —			
Socks	131.1	131.1	131.5
Underwear	119.8	119.8	120.8
Shoes	144.5	144.5	144.9
Furniture	146.6	146.6	150.6
Floor coverings	153.2	153.6	157.6
Radios	117.7	117.7	123.7
Luggage	129.8	129.9	131.2
Electrical household appliances	138.8	139.2	143.5
China	134.1	134.1	133.8
MANUFACTURERS' INVENTORIES & SALES (DEPT. OF COMMERCE)—Month of July (million of dollars):			
Inventories:			
Durable	$14,103	*$14,499	$13,967
Nondurable	15,589	*15,805	16,269
Total	$29,692	*$30,304	$30,236
Sales	15,010	16,536	16,403
MONEY IN CIRCULATION—TREASURY DEPT. As of August 31 (000's omitted)	$27,392,645	$27,394,202	$28,055,225
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Sept.:			
Industrials (125)	6.39	6.61	6.06
Railroads (25)	8.66	8.94	6.25
Utilities (25)	6.06	6.06	5.90
Banks (15)	4.51	4.52	4.67
Insurance (10)	3.21	3.26	3.40
Average yield (200)	6.31	6.50	5.95
NEW CAPITAL ISSUES IN GREAT BRITAIN—MIDLAND BANK, LTD.—Month of Sept.	£4,267,000	£2,221,000	£5,196,000
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments, month of July:			
Aluminum (thousands of pounds)	18,621	23,261	28,944
Copper (thousands of pounds)	42,273	52,616	71,803
Magnesium (thousands of pounds)	689	799	554
Zinc (thousands of pounds)	25,943	32,823	32,459
Lead die (thousands of pounds)	600	606	861

*Revised figure.

Mutual Funds and Their Investment Advantages

(Continued from page 13)

growing welfare and pension funds of industrial companies. They likewise will be available to the increasing number of pension and welfare funds of labor unions and fraternal organizations.

It is estimated that in 1948 institutional and fiduciary investments in the mutual companies were close to $200 million, with one company reporting as much as $15 million of its funds held by individual or institutional investors in amounts of $50,000 or more.

Large-scale investors can, of course, directly purchase expert advice and skilled and experienced management at reasonable costs. They can secure careful, scientific selection and diversification of securities and adopt sound investment techniques controlling the timing of purchases and sales, but success or failure of their programs in the long run depends upon the ability and experience of individual managements. The time-tested, successful, proven record of performance of the mutual companies eliminates the difficulties involved in selecting managers or trustees of endowment, trusts and pension funds. Those individual trustees who may be inexperienced in investment problems and analysis, can be relieved of onerous administrative duties and investment responsibilities by reliance on such proven management. Economies in administration and accounting are also valuable by-products not to be ignored.

All these advantages are available to the trustees of labor union pension funds, which may in the future constitute a major factor in the flow of capital into business and industry. If such trustees are well advised, they will take advantage of the proven services of the many and varied mutual investment companies rather than attempt to establish their own investment policies and employ their own analysts and managers.

Harvard University, with the largest educational endowment in the world today, has recently turned over the management of its entire investment portfolio to a company which acts as manager for one of the leading mutual investment funds.

Fiduciaries of trust funds, created by will or deed, and officials responsible for the management of the trust funds of banks and similar institutions, especially those with relatively small funds, are using the mutual investment companies on an increasing scale each year to safeguard the principal, income, and purchasing power of funds entrusted to their care.

The condition of those who must live on income from trust funds has become increasingly deplorable over the years because of the drastic decline in interest rates and sharp increases in taxes and living costs during the last two decades. With interest rates on all bonds and mortgages cut about 50%, the cost of living up 75%, and income taxes greatly increased since 1930, in order to assure the beneficiary of a trust fund the same purchasing power from the income of such a fund in 1949 as he received in 1930, a fund about five times as large would now be required.

Under such circumstances, all fiduciaries have sought, where legally possible, to protect the purchasing power of the income and principal of their funds by investment in common stocks, at least to a substantial degree.

Many trusts with relatively small funds find themselves in no better position than does the average investor. The low costs, efficient and skilled management, great selectivity, and wide diversification, offered by the mutual companies, is becoming increasingly difficult to obtain in any other way. Furthermore, the experience of all investors since 1928 has shown that the more conservative investment instruments—especially corporate bonds, savings bank deposits and life insurance policies—do not furnish satisfactory protection against the risks of inflation, rising living costs, artificial interest rates, currency manipulations and increased tax rates. In fact, carefully selected common stocks have proven to be much more effective in these respects than other investment media during the past quarter-century.

If it is admitted, as is generally the case, that the cardinal principles of prudent investment are careful selection, scientific diversification, and constant expert supervision, then, in the opinion of this author, the Mutual Funds are not merely another sound investment medium for the average investor, large or small, but they seem to be the only practical medium available throughout the highways and byways of America which offer both maximum benefits from his investment and maximum protection from the many risks of modern society.

Economic and Social Significance of Mutual Funds

The drastic redistribution of wealth which has taken place in the United States during the last twenty years as the result of steeply graduated income taxes and other political devices, has created a serious problem for American industry through the destruction of large pools of concentrated wealth. Inheritance taxes have dissipated our large estates. Again, due to sharply graduated income taxes since 1933, the wealthy and the upper income groups—the traditional sources of permanent equity capital—can no longer accumulate the large volume of savings so essential in supplying the annual demands of a constantly expanding industrial economy.

A brief study of the sources of new capital expended by industry during 1948, as compared with the distribution of gross individual liquid savings for the same period, clearly reveals the need for more equity capital for industry and indicates the sources from which it must be obtained.

The Council of Economic Advisers in its annual report to President Truman in January (1949) estimated that total business expenditures (excluding agriculture) for new plant and equipment in 1948 aggregated $18,800,000,000. The major sources of these new funds were estimated as follows:—

	Billions
Internal Sources—	
Retained net earnings and depreciation	$12.5
External Sources—	
Increase in long-term bank loans	0.4
Sale of new bond issues	4.8
*Sale of new stock issues	1.1
Total	$18.8

*Both Common and Preferred.

The high percentage—more than 28% of the total and 82% of the amount from external sources—derived from debt financing (bank loans and bond issues combined) is unsound and contrary to all past experience. The borrowing of such a large portion of industry's annual capital requirements could not continue indefinitely without serious consequences to our economy. Furthermore, constant retention of so large a percentage of earnings — more than 70% of the total net earnings of 1948 in contrast to the normal 30%—is also unsound since failure to pay larger dividends decreases investor incentive, results in lower market prices for common stocks and makes equity financing consequently more difficult. It is obvious, therefore, that a much larger percentage of the total annual new capital requirements of industry must in the future be financed by the sale of permanent common stock equities, if a healthy national economy based on free enterprise is to be maintained.

The Securities and Exchange Commission estimates that during 1948 the gross liquid savings of individuals were distributed as follows:

	Billions
Deposits with Savings Banks, other Banks, and Building and Loan Associations	$0.7
Federal, State and Municipal Bonds	2.1
Federal Social Security Payments	3.4
Life Insurance Premiums	3.6
Corporate Bonds and Preferred Stocks	1.0
Corporate Common Stocks	1.0
Total	$11.8

It is obvious from the above, that, if industry is to obtain a higher percentage of common stock or equity capital from the annual savings of the public, it must come largely from those individuals who now favor savings banks deposits and government bonds as their investment media.

The assets of mutual investment companies are largely invested in common stocks of private corporations. Their shares generally return a much more liberal income than do bank deposits or corporate and government bonds. As new investors become better acquainted with the advantages of mutual funds, their enlightened self-interest will lead them to put increasing portions of their savings therein.

The table below showing the growth in the net assets and number of shareholders of mutual funds since 1940 is not only impressive, but indicative of their rapid increase in popularity:—

(Dec. 31st of Each Year)

Year	Total Net Assets	No. of Shareholders
*1949	$1,755,160,000	840,000
1948	1,505,762,000	722,118
1947	1,409,165,000	672,543
1946	1,311,108,000	580,221
1945	1,284,185,000	497,875
1944	882,191,000	421,675
1943	653,653,000	341,435
1942	486,850,000	312,609
1941	401,611,000	293,251
1940	447,959,000	296,056

*Estimated as of Sept. 30, 1949.

It is obvious that, with a continuation of such a rate of growth, these mutual investment companies can well become directly or indirectly the one most important source of equity capital in future years. They can become ultimately just as important reservoirs of equity capital as insurance companies and banks now are for Government and corporate debt. It is not suggested that the mutual investment companies will furnish venture capital in any substantial amount to untried and unseasoned enterprises, but that by broadening the base of public ownership of equity securities and increasing generally the size of the market for such securities, a highly constructive purpose will be served with immeasurable benefit to both our industries and investors therein.

Although these investment companies do not now take up all their rights to subscribe to additional stock of seasoned companies whose securities they hold, the amounts they do take up are becoming increasingly important to industry and can become a leading factor in this respect as the investment company industry continues its growth from year to year. Equity securities of perhaps 500 or more business corporations are now held in sizable amounts by the "open-end" investment companies. This number increases steadily with the growth and "seasoning" of other corporations. By providing a greatly increased number of investors with a strong backlog of diversified and supervised equity investments, this process places these individuals in a safer position to employ some definite portion of their funds directly in venture risks. In the past, too many new and inexperienced investors in common stocks, acting individually without adequate counsel, have been discouraged by disastrous results from their first equity purchases. However, if they begin with mutual company shares, they have available constant guidance and expert supervision from the start and gradually gain confidence in equities and become experienced and satisfied investors whose savings might otherwise be lost to industry.

Conclusion

Since the great bulk of the savings of the country now are, and in the future are likely to continue to be, concentrated in groups with incomes of $10,000 or less, it is obvious that the smaller income-earners must be educated to the advantages of the mutual companies, if the country is to be assured of adequate balance between the large sums of both creditor and equity capital constantly needed to maintain and improve its productive equipment without recourse to Government intervention and eventual nationalization of our major industries. One of the chief defects in our present society is the relatively small percentage of the total population, and particularly the voters of the country, who have a direct interest through ownership of corporate stocks or bonds, particularly the former, in the preservation of our system of private enterprise conducted largely through the corporate form of organization.

While strictly accurate figures are not available, it is probably safe to say that less than 10 million persons in a nation with close to 150 million in population today have any ownership or stock interest in any corporate enterprise. In fact, it has been estimated that less than 10% of our voting population has any such interest.

On the other hand, it would be highly unwise to encourage widespread investment directly in equity or even in creditor investments of corporate enterprise on the part of the inexperienced investors through the media and methods available to them in years past. The development of the mutual investment industry under Federal legislation and regulation has radically changed the situation which prevailed even 10 years ago. Today, the enlightened self-interest of corporate enterprises and all who believe in a free society requires that American industry and business be owned widely by the rank and file of the men and women who, with incomes of $5,000 or less, earn 80% of the national income each year, and also constitute the vast majority of the electorate which will determine in the final analysis whether this country shall succumb to State Socialism in some form. The greatest insurance against Socialism or Communism lies in having every income-earner a part-owner in our system of private corporate enterprise on a safe and sound basis; that is, with scientific diversification and professional supervision. This constructive assurance can be attained safely only through the mutual investment companies.

Those groups which have benefited most from the redistribution of wealth over the last 20 years, especially the industrial worker and the farmer, should be prepared to take over the investment responsibilities of our former group of capitalists, which they have so largely replaced. They should learn how to employ to their advantage a reasonable portion of their savings in ownership of American industrial enterprises through prudent purchases of common stocks. To permit all of their savings to flow into creditor instruments through investing solely in bonds, savings banks, and insurance will most certainly ultimately wreck the economic system which has given them their present prosperity.

Furthermore, every worker in industry has just as vital an interest in helping to provide equity capital for the tools of production which make possible his ever higher standards of life as do corporate management and present corporate investors. Individually, each worker's contribution may seem small, but collectively they can become mighty. Certainly, a substantial portion of his contributions to union funds could properly, safely, and profitably be invested by his union in mutual investment companies.

The typical farm today is a capitalistic business enterprise, owning its own land, its plant, and the machinery by which it is operated. Every farm family perhaps realizes that it has been America's large mass production corporations that have been able to give to them, at prices they can afford, their labor saving household appliances, their radios, their telephones and electricity, their automobiles, their gasoline and oil, their tractors and farm machinery, their fertilizers and all the instruments that have made farming a more pleasant and profitable enterprise. Why, then, should not the farmer, too, invest a good portion of his savings in the stocks of the companies whose merchandise he so highly prizes? The Mutual Funds — real investment "cooperatives" — provide the most prudent vehicle by which he can do so.

With the progress of Mutual Funds so closely interwined with the economic good of all of our citizens, the Congress of the United States and the State legislatures should be diligent in removing any and all obstacles which might impede the ready distribution of Mutual Fund shares to the American people or make technically difficult the great task of educating the nation's millions of inexperienced investors as to the most prudent methods of employing a portion of their capital and savings in the ownership and development of American industry.

David Schachter Opens

David Schachter is engaging in a securities business from offices at 408 East Tenth Street, New York City.

Robert M. Tanney in NYC

Robert M. Tanney is engaging in a securities business from offices at 140 Cedar Street, New York City.

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Revise Charter of United Nations!

(Continued from first page)

because no one can exaggerate the tremendous horror and destruction of a third world war. In the second world war three hundred thousand of your young men were killed. Hundreds of thousands more were maimed for life. But, that would be nothing to the destruction of life and property which could be caused by atomic warfare. The leaders of nations have been too much inclined to regard war as merely a political weapon to accomplish ends which they desire for their nation. But war today is a calamity for the victor. To my mind an administration which involves us in war has demonstrated the failure of its diplomacy.

Of course these two great goals of liberty and peace have become much more difficult to obtain today under modern conditions. Any war throughout the world may be extended until the entire world is in flames. Distances are so much shorter that our liberty is threatened by the existence of a great military force almost anywhere in the world. The occupation of Western Europe by Russia, for instance, would certainly be a serious threat to the security of this country, as it would not have been before the age of air warfare. We, therefore, are forced to take far more interest than we did formerly in the prevention of disputes and also in the elimination of conditions which may lead to war. Nevertheless, we cannot hope to affect very materially the economic conditions in countries like China and India and we certainly should not press an intervention, even a friendly intervention, into the internal affairs of other countries to a point which would involve us in unnecessary disputes.

Necessity of International Organization

The condition of the world today, therefore, emphasizes the tremendous necessity of international organization to maintain peace. I was always in favor of the League of Nations and the general principles of the League to Enforce Peace which was advocated by my father before Versailles. I feel very strongly that such an organization must be based on a covenant between independent nations under which they agree to a definite law governing their actions, particularly with regard to aggression against other nations. I believe they should bind themselves to go to war with any nation found to be an aggressor by an impartial international tribunal interpreting the law to which all nations have agreed. I do not believe the organization can be successful unless the public opinion of the world believe in justice so strongly that it would back up the decision of the Court and throw the whole weight of organized humanity against the nation which undertakes aggression. I would favor an international force to act promptly on the temporary or permanent orders of the International Court pending the mobilization of national forces.

I have never believed in a "World State" with legislative powers similar to those of our Congress. It seems to me that such a state would obviously destroy the liberties of our people. We would have a small percentage of the total voting power and would be helpless to prevent the passage of laws interfering with our internal affairs, taxing our substance and destroying the results of our economic development in this country, for the supposed benefit of millions unable to retain the benefits or a system they have never learned to understand. I have never seen how we could combine with nations which do not even understand how Americans begin to think and who have an entirely different approach to problems of freedom and the totalitarian state.

United Nations Founded on Power and Expediency

When the United Nations was proposed I supported it and voted for it although it only carries out, in part, the ideals which I believe should govern an international organization. It seems to me it was founded primarily on power and expediency rather than on justice. The men who wrote the first draft at Dumbarton Oaks were apparently ignorant of American ideals and principles. There was no mention whatever of justice and the International Court was a kind of a fifth wheel having little to do with the operation of the United Nations. Through Senator Vandenberg's efforts justice was established as one of the purposes of the organization at San Francisco. But a careful reading of the Charter today still leaves one with the impression that the Security Council, dominated by the large powers, has to make its decision on the basis of policy, power and expediency rather than justice. They must adopt those policies and initiate those military actions which they deem necessary to promote "the peace and security of the world."

As long as we have an organization based on such principles it is difficult indeed to argue that we should surrender the power of veto because there is no principle of action to guide the Security Council and we would be subject ourselves to the policy decisions of other nations. In theory, for instance, if they felt that the destruction of Poland would promote peace and security because it has always been the center of contention, they could act without regard to the question of justice to the Polish people. I would be quite willing to surrender the power of veto if the action taken is the action of an impartial tribunal administering the law to which we had agreed.

In fact, it seems to me that the very basis for international peace must be the willingness of all the great nations to accept and abide by the decision of a court even if they do not like that decision. In 1910, my father negotiated treaties with England and France, agreeing to submit to arbitration all disputes which could be considered justiciable and to submit also to an impartial tribunal the question whether an issue was justiciable or not. It is unfortunate that those treaties were rejected by the Senate becaues the establishment of such a principle is absolutely essential, to my mind, to the success of any international organization.

I voted for the United Nations, however, and I believe we should work with it and support it and try to improve it. It has afforded an "international Town Meeting" where all issues are freely discussed and their consequences considered. In spite of the epithets and vociferous denunciations I think it is better to have these matters brought out in the open than it is to have them fester until they break out in a sudden and uncontrollable war. Our efforts should be to improve the present Charter. That is probably impossible so long as Russia maintains her present attitude, although certainly some effort could be made. The difficulty is that Russia appears to deny the possibility of justice. Communism does not recognize the existence of an impartial tribunal.

Build Within UN—Without Russia

If Russia proves intractible I do not quite see why we cannot build within the United Nations, under the Regional Agreement clause, a smaller international organization carrying out all the ideals I have discussed. One of my real regrets about the Atlantic Pact was that no effort was made to work out such a plan which might later spread to cover the entire world. Instead, we entered only into a military alliance which is both offensive and defensive in character.

I believe the time has come, or is rapidly approaching, when we could call for a convention to revise the Charter of the United Nations. If Russia declines or blocks the adoption of a satisfactory amendment then, perhaps, we can revise the Atlantic Pact and the Rio Treaty to set up some organizations closer to the ideals of justice and peace.

Up to this time I have been discussing theories and I quite realize that actual conditions in the world today dominate the day-to-day policies which we must adopt. We do face today in the Russian power and the aggressive tone of communism a threat to the peace of the world. We reached that point, I believe, by the failure of our foreign policy from the days of Teheran on. Mr. Harry Hopkins and the other men who dominated the foreign policy of the United States believed for some reason that communism was a kind of democratic government and that it had very much the same ideals of peace and liberty held by the American people. The State Department seems to have felt that if we gave Russia everything she asked to avoid any difference of opinion, they would ultimately cooperate with us in establishing free government and liberty throughout the world. That view was reached, I think, by a strange inability on the part of men brought up in the American tradition to understand the true character of American liberty, both individual and economic. Henry Wallace seemed to think that communism was just another form of democracy—perhaps a little better than our own form. Never has there been such a complete blindness on the part of men in such important government positions. We see now that communism denies every basis of the American system. There is no liberty in Russia. There is no equality, for the Communist Party enjoys all the privileges although only a small proportion of the population. There is no justice, for it does not admit that there is such a thing as impartiality. It denies religion and God itself.

Our Mistakes at Yalta

Yet, our agreements made at Yalta set Russia up in a nominating position in Central Europe and in effect established a zone of influence which she has turned into an iron curtain. Our troops could have occupied Berlin and they could have occupied Czechoslovakia; but, because of the agreements made at Yalta we withdrew beyond the line agreed to. Russia, from her position in Berlin, Prague and Vienna dominates Central Europe, shuts us off from Poland, the Balkans and the Baltic countries and threatens the security of Western Europe.

Not only that, but we gave Russia a position in Manchuria similar to that of Japan although we have always protested bitterly against that Japanese occupation and made it largely the basis for war. We put the Russians in a position where they could arm the Chinese communists which has resulted in sprending communism throughout all Asia and threatening Indonesia and the Philippines and Japan itself if we withdrew.

There has never been a more fatal or costly policy in the history of this country. Because of it today we are spending more than $15 billion a year on our armed forces and another $7 billion on aid to foreign countries. More than half of our Federal budget is devoted to a cold war against the communists whom we encouraged and supported.

These mistakes, however, have been made and we can only deal with the situation as we find it today. The Administration was finally converted to an anti-communist position in Europe largely through the influence of Senator Vandenberg and Senator Dulles. But, for some unaccountable reason, they continued to encourage communism in China until it was completely successful.

I have supported most of the moves undertaken in Europe whenever I felt that they were effective and well designed. I supported military aid to Greece and Turkey because it seemed to me that these were two points at which Russian military infiltration was possible and perhaps immediate.

I also approved the general purpose of the ECA economic aid to European countries disorganized bv war and within the easy reach of Russian influence and propaganda, so that these countries might recover more rapidly. I felt that we could supply certain things which would enable them to accomplish in three or four years what through their own efforts they could only accomplish in 10 years. I felt that our aid could create a condition in which the spread of communism would find less fertile soil.

I believe that this policy has proved successful particularly in France and Italy and some of the smaller countries. Whether it was necessary in Great Britain has always seemed more doubtful to me, because I do not believe the British face any serious danger in the spread of communism. I have supported the policy although I think some of the expenditures are unnecessary and not related directly to the real reason for the policy.

The Congress this year cut off about half a billion dollars of the sums requested because they agreed with my position that the whole amount was unnecessary for the purpose. I do feel the program should be gradually cut down and ended in 1952. Paul Hoffman agrees. I do not think it has an economic justification. In the first place it threatens a serious effect on our own economy. It has built up an export trade which cannot possibly be maintained. The amounts given away for nothing represent a considerable part of the labor and resources of the American people which cannot continue indefinitely. Personally I do not think we can stand a heavier taxation than we now have and still hope to maintain the economic progress and dynamic expansion necessary for full employment. Incidentally if we do not succeed in maintaining that, we cannot ever hope to raise the taxes which we are collecting today. There is a practical limit to the taxation which can be imposed without suppressing the spirit and the power of a free economy.

In the second place I do not believe that permanent economic aid would solve the problems of countries like Great Britain. It is now four years since the war ended and there is no evidence that Great Britain faces any different problem today than she will face five years from today. No nation can expect to exist permanently on the bounty of another nation and the sooner she is forced to make the drastic economic revisions that are necessary the better it will be for her own people.

Doubts Point IV Program

I have also a good deal of doubt about the so-called Point Four program of economic assistance. I have always felt we might well promote industrial development in some countries with profit to the people concerned and to ourselves. I approved the lending of money to Brazil to help establish an iron ore and steel industry which would produce a Brazilian purchasing power tending to increase our exports to Brazil rather than decrease them. But, the policy must be limited to practical proposals and to a total amount within our means. We should certainly insist on guarantee against confiscation, and we cannot afford an unlimited guaranty of the convertibility of currencies. Such a guaranty is merely another form of loan to the countries concerned with no assurance of repayment.

I opposed the military assistance program because it seemed to me that it would tend to promote war with Russia rather than to prevent it, while it would draw more funds from this country, increase our deficit and promote inflation. On the other hand I am clearly in favor of a declaration by the United States, in the nature of the Monroe Doctrine, that if Russia attacks Western Europe she will find herself at war with us. That, I think, would be a real deterrent to Russia. As Mr. Churchill said, it is our air force with its power to deliver atomic bombs which has been the most effective deterrent up to this time. If we arm all of Western Europe, and Russia sees herself ringed about gradually by so-called defensive arms from Norway on the north to Turkey and Iran on the south she may decide that the arming of Western Europe, regardless of its present purpose, will lead to attack on Russia. However unreasonable this view may be Russia may well decide that if war is the probable ultimate result it had better occur now rather than after the arming of Europe is complete. It will take four or five years to accomplish that purpose, and in the meantime most of these countries are open to Russian attack.

Unquestionably the arms program will force the Russians into an acceleration of their own arms program. That means an armament race which in the past has seldom failed to produce war.

Reason for Opposition to Atlantic Pact

I voted against the Atlantic Pact only because the nations which signed it did so with the understanding that they would receive arms and so it was part of the Armament Program. Except for that I would have voted for the Pact because of the importance of deterring war, although I do not like its terms binding us for 20 years to go to the assistance of any nation that is attacked by anyone, without international or judicial action or consideration of the causes which might have led to the attack.

With the arms obligation I think the Atlantic Pact is completely inconsistent with the whole spirit of the United Nations Charter. I do not think that Article 51 contemplated any collective self defense under which, before an attack occurs, one great nation undertakes to arm half the world against the other half.

The program actually carried out so far is more or less ineffective and, I think, a waste of money. It would take $30 billion to arm Western Europe—not $1 billion. The trickle of arms which goes to Europe may well reach the hands of communist governments or may be seized by Russia. We could hardly expect the smaller countries to stand up against Russian threats particularly if she has the atomic bomb and the arms we send abroad may well be used finally against our own armies.

I do not believe that the arming of other nations has ever tended to produce peace. On the other hand, probably no doctrine has been as successful in maintaining

peace as the Monroe Doctrine, that was a unilateral declaration which did not contain the slightest suggestion of arms for any Latin American country. I would favor a Monroe Doctrine applied to Western Europe.

Not an Isolationist

I have noticed some recent articles accusing me of isolationism and it is hard for me to understand how anyone who favors a real United Nations and a Monroe Doctrine for Western Europe could be attacked on that basis. Apparently those who make the charge feel that anyone who varies from the pattern established by our State Department is to be cast into outer darkness. State Department policy to them has become a party line and they jump back and forth just as quickly as did the communists when Stalin favored or opposed Hitler. This is all the more remarkable when we consider the fatal mistakes of policy made at Yalta and Potsdam and in China by that same State Department. The military assistance program, in my opinion, is absoluteiy contrary to our policy of joining and supporting the United Nations, and yet we are asked to support both with a bland ignoring of logic. The brand of isolationism also appears to be imposed on anyone who ventures to suggest that our aid to Great Britain should be less than that decreed by the State Department under pressure from the British Government.

I do not wish to imply that I consider a war with Russia inevitable or even likely. I am inclined to the opposite point of view. Perhaps the wish is father to the thought, but certainly the Russians have shown no sign of impending military aggression. In four years they have not moved beyond the line of occupation given them in substance at Yalta. Our army officers with whom I have talked and the leaders of European nations do not think a Russian military attack likely particularly so long as we maintain an extremely powerful air force able to deliver the atomic bomb.

I think the Russians depend far more on the spread of communism in which they have a fanatical confidence. I think they expect communism to conquer the world through propaganda and infiltration and the automatic collapse of capitalism for which they hope. That I consider our real battle. That is why I supported the ECA and the "Voice of America." But there would be little sense in spending $5 billion a year on ECA if we thought the Russians were going to begin a military attack tomorrow and wipe out all the benefits created by the sacrifice of American taxpayers. If we want to meet the ideology of communism we must keep this country strong. We cannot adopt the deadening policy of socialism or statism or impose tremendous taxes which destroy the very machinery which produces the taxes necessary to fight communism. We cannot win by apologizing for a free system.

From the time of the adoption of the Constitution we have spread the doctrine of liberty throughout the world until it was accepted as the sound theory of government even in countries where the fact did not exist. We can do it again if we convince ourselves that liberty, rather than totalitarian government, is the cause of our success and the solution of the problems of the people. If we can convince ourselves, we can combat communism throughout the world with the gospel of liberty. We have all the logical arguments, and all the results to point to. Liberty alone can bring to the world a peace based on Justice, and lessen the hardship and suffering of countless millions.

Observations

(Continued from page 5)

in one way or another; such subsidies having been paid under a large number of enactments from the National Exchequer to the local authorities—the net cost to the Exchequer having grown to £66 million, as budgeted for the current fiscal year.

After the First World War controls were kept on existing houses, new houses being freed. (A rent increase of 40% being granted on old houses.) At the outbreak of the Second World War in September, 1939, all rents were frozen. This was applied to old houses only, but the distinction was largely academic until 1946 because of the cessation of building during the war.

Now housing accommodations are being administered under a new Act passed earlier this year, which freezes all properties—both old and new—subject to certain prescribed procedures.

Under the present legal setup, everything built since 1939 is fixed with a rental set by local tribunals, who are broadly charged to fix rents to take care of capital charges, the cost of repairs and management, and the national and local subsidies. They have full discretion in charging a full economic rent to those persons able to pay it and a particularly low rent to others who would otherwise be unable to have a house. The principle is a pooling of the subsidies with complete flexibility in fixing the rents. In practice the local rent tribunals have complete and autocratic discretion, with the basis of what landlords' income is deemed proper or other codified rule not being stated. Membership thereon is by appointment by the Health Minister, mostly from the "political boys."

The finished homes belong to the Local Authorities for rental purposes.

The Subsidy in Operation

Actually—the rentals don't cover the interest charges on the Housing Authorities' borrowings—they are covered by the local taxes; so actually the rents really contain the subsidies through leasing by the local authorities at less than their cost. As to **who gets** the subsidies—the Local Authority decides who is to get the houses—this is done on purely **physical** tests, as to number of children, not financial needs. The rents being uniform—Lord Nuffield and a pauper would get the same rental. The result is that the subsidizing is devoted to uneconomic rents, and the low rents are given to the people irrespective of whether they need them or not.

Hamstringing Through Licensing

The keynote of the home building situation—and to its present troubles—is a licensing system to which every builder is subjected for every individual unit which it is desired to build. Not only is this licensing machinery extremely strict and cumbersome, but it is hamstrung by the ideological principle as laid down by Minister of Health Aneuran Bevan, that there shall be only one privately-built house to every four built by the government—a doctrine personally pronounced and without substantiation but rigidly adhered to right down the line.

The licensing system has caused troubles of various kinds. In the first place, there is the slowness of the authorities, through bureaucratic tangles in issuing licenses, and again when passing on necessary changes in the materials to be used. Public building is much slower than private building is or ever was—the current differential now being an average of 12 months against 8 months.

A One-Way Deal

Another Socialist obstacle to private operations is the comparatively new regulation called the "Development Charge." This operates as follows: a builder decides to construct a block of flats where obsolete houses stood before. While the land is worth only £10,000 now, it is calculated by the government that the act of developing the improvement will raise its value to £25,000. But instead of the developer receiving this profit—or having a chance to—he has to pay this £15,000 of possible profit immediately, in advance, to the Central authorities as a levy. Surely a "heads-you-win-tails-I-lose" proposition.

Private developments are obstructed also by the fact that licenses are not given for runs of units in the same area.

Private Building Now Paralyzed

As a result of all the restrictions, operations by private contractors for their own account have practically ceased. The private building of HOUSES is stopped by the difficulties of licensing, and the private building of FLATS is prevented by rent restriction, plus the licensing.

Costs have gone way up under the government's program, even before devaluation. In the 10-year period ending in 1949 building costs under the government rose by 340% against one of 250% in the private field. The Report of the Girdwood Committee, an official Parliamentary body, concluded that transferring the administration to public authorities was responsible for a rise of 45% in man-hours to build a house, with an average extra cost of £150 per unit, or a total extra burden to the government of £72 million annually.

These extra costs are now being further boosted by the increased import prices of timber occurring since devaluation.

Factory Construction Also Stuck

In factory building also there is a great shortage, because of the subsidized competitive homebuilding as well as the bureaucratic blocks in the securing of permits. The granting of permits is done under the aegis of the Board of Trade which acts on every new application—even for mere enlargement of a yard—after consultation with the Ministries of Labor, of Supply, and of Town-and-Country Planning.

The new changes in policy made under duress, in conjunction with repercussions from devaluation, will only further muddle the already muddled housing situation—surely a key situation in the Labor Government's great planning effort!

Reports Strike Impact on Business

(Continued from page 12)

but it is probable such stocks are not plentiful.

Inventories

Industrial inventories of purchased materials continued to drop, although the largest number reported increases since June, 1948. The causes of the increases fall into two classes: (1) build-up in anticipation of coal and steel strikes; (2) receipts of materials purchased for higher production schedules than are now in effect.

Selling of overstocks is not unusual. Purchasing Agents are paying particular attention to open commitments to hold deliveries in balance with supplies which may become critical because of work stoppages.

Buying Policy

As for several months past, the prevailing range of forward buying policy is under 90 days. The slight movement into the top side of this bracket appears to be halted. Buyers are placing orders for steel and aluminum with indefinite lead time, in order to have a favorable position on producers' allotment schedules when production of these strike-bound materials is resumed. In line with the cautious inventory policy, Purchasing Agents are carefully screening new requisitions in order to avoid unbalanced inventories—too much of the easy-to-get items, with too little of the materials which are becoming more critical daily.

Employment

The rate of employment increase slowed down perceptibly in October. Pay roll reductions are back to the August level. Lower production schedules are cutting work time. Continuation of the major strikes will mean more layoffs and further reduction of working time. Increased efficiency and productivity per man hour are often mentioned in the reports this month. Indirect labor layoffs are reported higher than usual when compared to direct labor. Much more interest in holding onto a job is evidenced in the reports.

Specific Commodity Changes

Lead, zinc, antimony and tin, all **down**, headed the limited price change list this month.

Others recorded down: Arsenic, caustic soda, cement, cotton waste, batteries, poultry, pork, canned fruits, scrap iron, menthol, mercury, manila rope, vegetable oils, shellac, starch, soda ash, tallow.

Up were: Burlap, cement, flour, sugar, beef, coal, fuel oil, coke, hides and leather, Douglas fir, eastern pine veneers, propane, silver, textiles.

Harder to get: Aluminum, brick, cement, coal, coke, copper scrap, nails, pipe, steel.

Canada

In Canada, business is reported holding up better than in the United States, but the trend is down. The production decline is lower and slower than in U. S. Order books are static, with a tendency to go lower. Commodity prices advanced again in much higher ratio than in the States, largely due to the higher cost of imports from the United States caused by currency devaluation. Inventory position is increasing as protection against anticipated price increases. Employment is off. Buying policy is slightly longer than in the United States. Canadian manufacturing industries are caught between price increases for United States materials and competition of finished goods from currency devalued countries.

Survey Cites Small Number of Stockhldrs.

Federal Reserve Board points out risk, lack of financial knowledge, and general indifference has led to only about 8% of families in the United States owning common or preferred shares of corporations, compared with 77% who hold life insurance.

The Federal Reserve Board has released Part VI of its 1948 Survey of Consumer Finances, made in cooperation with the Survey Research Center of the University of Michigan. This section deals with the ownership by individuals and families of automobiles, and bonds, and other nonliquid assets. According to the report:

"As compared with other forms of investment, such as homes and other real estate, life insurance, and U. S. Government securities, a relatively small number of consumer units have any of their resources invested in the common and preferred stock of corporations. Early in 1949 approximately 4 million spending units, about 8% of all units, owned some stock in so-called 'open' corporations (open to investment by the general public). A small proportion of the units in this group also owned shares of so-called 'privately held' corporations (companies not open to investment by the public). In addition, roughly a half million consumer units owned only stock of privately held corporations. In all, about 4.5 million consumer spending units owned corporate stock early in 1949, including both privately held companies and those open to investment by the public.

"Frequently, more than one person in a spending unit owns some stock. On the basis of previous surveys, it may be stated that on the average roughly one and one-third individuals own stock in each consumer unit that reports holding stock. Therefore, it can be estimated that as of the early part of 1949 about 6 million individuals in 4.5 million spending units owned some corporate stock. As has been stated in reporting the findings of earlier surveys, this should be considered a rough estimate. It is probably a minimum estimate inasmuch as stock ownership is largely concentrated in a small proportion of the population, particularly in high income groups, and also because residents of hotels and other transients were omitted from the survey.

"Information was also obtained on ownership of the bonds of corporations and State, local, and foreign governments. Fewer units (about 1% of all spending units) held this type of asset than any of the other nonliquid assets covered by the survey."

First Michigan Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Albert B. Skalsey has been added to the staff of First of Michigan Corp., Buhl Building.

Joins Wahler, White Staff

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Roland C. Lambkin has been added to the staff of Wahler, White & Co., Dwight Building.

Securities Now in Registration

● **INDICATES ADDITIONS SINCE PREVIOUS ISSUE**

American Bosch Corp. (11/10)
Oct. 20 filed $4,000,000 of sinking fund debentures, due 1964. **Underwriter**—Allen & Co., New York. **Proceeds**—To repay bank loans and for general corporate purposes.

● **American Natural Gas Co. (11/23)**
Oct. 28 filed 304,485 shares (no par) common stock. **Offering**—to be offered to present stockholders of record Nov. 23 at the rate of one new share for each 10 held. **Underwriter**—Competitive bidding. Probable bidders: The First Boston Corp.; Blyth & Co., Inc.; Lehman Brothers; Glore, Forgan & Co. and W. C. Langley & Co. (jointly). **Proceeds**—To invest in common stocks of two subsidiaries, Michigan Consolidated Gas Co. and Milwaukee Gas Light Co. Bids expected to be received Nov. 23.

Associated Telephone Co., Ltd. (11/15)
Oct. 18 filed $9,000,000 of Series F first mortgage bonds, due 1979. **Underwriter**—To be decided under competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Paine, Webber, Jackson & Curtis; White, Weld & Co., Kidder, Peabody & Co. and Shuman, Agnew & Co. (jointly). **Proceeds**—Construction program. Bids expected about Nov. 15.

Atlantic Can Co., Delaware, N. J.
Oct. 24 (letter of notification) 25,000 shares of common stock (par $1). **Underwriter**—Pulis, Dowling & Co., New York. **Price**—$3 per share. Retire bank loans, etc.

● **Bader (C. L.) Co., Inc., Fort Smith, Ark.**
Oct. 26 (letter of notification) 1,000 shares of common stock. Price, $25 each. No underwriter. To expand plant and business.

Barclay Oil Co., Inc., Mt. Carmel, Ill. (11/15)
Oct. 13 (letter of notification) 2,000 shares of non-convertible ($100 par) value preferred stock and 6,000 shares ($1 par) common stock. To be offered in units of one share of preferred and two of common stock at $102 a unit. **Underwriter**—Sterling, Grace & Co., New York. To acquire oil leases and drill wells.

Black Hills Power & Light Co. (11/15)
Oct. 25 filed 33,730 shares ($1 par) common stock. **Offering**—To be offered to common stockholders of record about Nov. 15 at the rate of one new share for each five held. Rights expire Nov. 19. **Underwriter**—Dillon, Read & Co., N. Y. **Proceeds**—For construction.

● **Brinnell Co., Granby, Conn.**
Oct. 20 (letter of notification) 2,000 shares ($25 par) common stock. Price par. No underwriter. For working capital.

Canam Mining Corp., Ltd., Vancouver, B. C.
Aug. 29 filed 1,000,000 shares of no par value common stock. **Price**—800,000 shares to be offered publicly at 80 cents per share; the remainder are registered as "bonus shares." **Underwriter**—Israel and Co., New York, N. Y. **Proceeds**—To develop mineral resources.

Carolina Telephone & Telegraph Co., Tarboro, North Carolina
Sept. 28 filed 29,750 shares ($100 par) common capital stock. **Offering**—Offered to stockholders of record Oct. 19 at rate of two new shares for each five held at $100 per share. Rights expire Nov. 8. **Proceeds**—To reduce indebtedness resulting from construction and for general corporate purposes. **Underwriting**—None.

● **Central Hudson Gas & Electric Corp.**
Oct. 26 filed $6,000,000 10-year convertible debentures, due 1949. **Underwriter**—To be named by amendment, along with price and underwriting terms. **Proceeds**—To pay $5,300,000 of notes, reimburse treasury for construction expenses, and for general corporate purposes.

Central Maine Power Co. (11/7)
Oct. 5 filed $5,000,000 first and general mortgage bonds, due 1979. **Underwriter**—To be decided by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Coffin & Burr and The First Boston Corp. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); White, Weld & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly); Otis & Co.; Shields & Co.; Union Securities Corp. and W. C. Langley & Co. (jointly). **Bids**—Bids for purchase of the bonds will be received by company at its office, 443 Congress Street, Portland, Me., up to 11 a.m. (EST) Nov. 7.

Central Maine Power Co. (11/7)
Oct. 12 filed 200,548 shares ($10 par) common stock and 30,000 shares ($100 par) preferred stock. **Offering**—Common will be offered for subscription by common and preferred stockholders in ratio of one new common for each 10 common shares held and one new common for each two preferred shares held. New England Public Service Co. (holder of 66.53% of outstanding common) has waived its right to subscribe for 131,518 common shares. **Underwriters**—To be decided under competitive bidding. Probable bidders: Preferred—Salomon Bros. & Hutzler; Harriman Ripley & Co.; Union Securities Corp. and W. C. Langley & Co. (jointly); Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly). Common—Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Harriman Ripley & Co. **Proceeds**—To repay bank loans incurred for construction program and to further construction. **Bids**—Bids for purchase of the stocks will be received by company at its office, 443 Congress Street, Portland, Me., in the case of the common stock up to noon, and in the case of the preferred stock, up to 11:30 a.m. (EST) Nov. 7.

Central & South West Corp. (11/4)
Oct. 13 filed 725,567 shares ($5 par) common stock. **Offering**—To be offered common stockholders of record Nov. 2 at rate of one share for each 10 held. Rights will expire Nov. 18. **Underwriters**—Blyth & Co., Inc., Smith, Barney & Co. and Harriman Ripley & Co. Nov. 2 submitted the best proposal for underwriting the offering, naming a subscription price of $12.875 per share less underwriting compensation of 32 cents a share. **Proceeds**—To buy additional common stock in two subsidiaries as a means of helping them with construction programs.

● **Citizens Telephone Co., Decatur, Ind.**
Oct. 21 (letter of notification) $250,000 of 4½% preferred stock. Price, $100 each. No underwriter. For plant and property additions to convert to automatic dial operation. Office: 240 W. Monroe Street, Decatur, Ind.

● **Clinton Foods, Inc., St. Louis, Mo. (11/16)**
Oct. 28 filed 50,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane and Newhard, Cook & Co. **Proceeds**—To pay loans and accounts payable to RFC, Agriculture and Treasury Departments and for working capital. **Business**—Corn products manufacturer.

● **Colorado Credit Life, Inc., Boulder, Colo.**
Oct. 21 (letter of notification) 10,000 shares ($1 par) common stock. Price, $2 each. No underwriter. To establish legal reserve and surplus balances. Office: 1336 Pearl Street, Boulder, Colo.

Colorado Oil & Gas Co., Alamosa, Colo.
Aug. 30 (letter of notification) 250,000 shares ($1 par) common stock, of which 200,000 will be sold for company and 50,000 shares for N. O. Yeakley, a controlling stockholder, at $1 each. **Underwriter**—W. C. Hitchman Co., New York. To lease properties, drill wells, and for working capital. Expected late in November.

● **Commonweal Broadcasting Co., Inc., Denver, Colorado**
Oct. 26 (letter of notification) 4,900 shares ($10 par) common stock. **Price**—$10 each. No underwriter. To build a standard radio broadcasting station.

● **Connecticut Light & Power Co., Hartford, Conn.**
Nov. 2 filed $10,000,000 series "L" first and refunding mortgage bonds, due 1984, and 100,000 shares of preferred stock (no par). **Underwriters**—Putnam & Co., Chas. W. Scranton & Co. and Estabrook & Co. **Proceeds**—For construction.

Consolidated Caribou Silver Mines, Inc.
March 30 filed 376,250 shares (no par) common stock. **Price**—$2.50 per share. An additional 50,000 shares will be sold to the underwriter at $1 per share for investment. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Temporarily postponed.

● **Consolidated Gas Electric Lt. & Pr. Co. of Balt.**
Oct. 28 filed $12,000,000 of series T first refunding mortgage sinking fund bonds, 2⅞%, due 1976, and $44,660,000 of series U 2⅞% first refunding mortgage sinking fund bonds, due 1981. **Offering**—To be offered in exchange for series Q 2¾%, due 1976, and series R 2¾%, due 1981, first refunding mortgage sinking fund bonds. **Underwriters**—The First Boston Corp. and Harriman Ripley & Co., Inc. **Proceeds**—This is an exchange offer.

● **Derby Gas & Electric Corp. (11/4)**
Nov. 28 (letter of notification) not less than 14,238 and not more than 16,162 shares (no par), the aggregate price to the public not to exceed $300,000. Price, market ($13.50-$21). **Underwriter**—Name by amendment. Retirement of $295,000 short-term loans. Offering not sooner than Nov. 4.

Detroit Edison Co., Detroit (11/9)
Oct. 14 filed 699,743 shares ($20 par) common stock. **Offering**—To be offered to stockholders of record Nov. 9 at $20 per share on the basis of one new share for each 10 held. Rights will expire Dec. 5. **Underwriting**—None. **Proceeds**—To repay bank loans for construction and for additional construction.

● **Eastern Harness Racing Club, Inc., Steubenville, Ohio**
Oct. 27 filed 1,000,000 shares (5c par) common stock. Price, $1 each. **Underwriter**—Tellier & Co., New York. **Proceeds**—To purchase, improve and operate the Fort Steuben Raceway.

● **Enterprise Petroleum, Inc., Salt Lake City, Utah**
Oct. 24 (letter of notification) $150,000 of one-year promissory notes and 600,000 shares of common stock. To be sold in $1 units with four shares of stock which accompany each note. No underwriter. To deepen and test a well in Sublette County, Wyo. Office: 218 Felt Building, Salt Lake City, Utah.

● **Florida Power Corp., St. Petersburg, Fla.**
Nov. 2 filed 242,000 shares ($7.50 par) common stock. **Offering**—To be offered to present stockholders at the rate of one new share for each five held. **Underwriters**—Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—For construction.

● **Forest Lawn Co., Glendale, Calif.**
Oct. 28 (letter of notification) $295,000 3% series E debentures, due 1969. To be sold to Forest Lawn Memorial Park Association, Inc. No underwriter. For capital improvements and investments.

● **Franklin Custodian Funds, Inc., New York**
Nov. 1 filed 200,000 shares of Common Stock Series, 50,000 shares of Utilities Series, 100,000 shares of Bond Series, 100,000 shares of Preferred Stock Series and 50,000 shares of Income Series. **Underwriter**—Franklin Distributors, Inc., New York.

● **Freeman Chemical Corp., Saukville, Wis.**
Oct. 26 (letter of notification) 500 shares of common stock. **Price**—$100 each. No underwriter. For working capital.

Gulf Atlantic Transportation Co., Jacksonville, Florida
May 31 filed 620,000 shares of class A participating ($1 par) stock and 270,000 shares (25c par) common stock. **Offering**—135,000 shares of common will be offered for subscription by holders on the basis of one-for-two at 25 cents per share. **Underwriters**—Names by amendment, and may include John J. Bergen & Co. and A. M. Kidder & Co. Underwriters will buy the remaining 135,000 shares plus unsubscribed shares of the new common. Offering price of class A $5. **Proceeds**—To complete an ocean ferry, to finance dock and terminal facilities, to pay current obligations, and to provide working capital.

● **Gulf States Utilities Co. (11-23)**
Oct. 27 filed $10,000,000 of first mortgage bonds, due 1979. **Underwriter**—Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane; Stone & Webster Securities Corp.; Kidder, Peabody & Co. and White, Weld & Co. (jointly); The First Boston Corp. **Proceeds**—To repay $6,500,000 of short-term notes and finance 1949 construction requirements. **Bids**—Bids will be received up to 3 p.m. (EST) Nov. 23 at office of Central Hanover Bank & Trust Co., Room A, 70 Broadway, New York.

● **Haley Canning Co., Hillsboro, Ore.**
Oct. 10 (letter of notification) $100,000 of preferred stock and $23,908 of common stock. To be offered at $10 each for the preferred and $12.59 each for the common. No underwriter. For additional working capital. Office: P. O. Box 200, Hillsboro, Ore.

Hawaiian Electric Co., Ltd., Honolulu
June 21 filed 150,000 shares of series E cumulative ($20 par) preferred and 50,000 shares of ($20 par) common. **Offering**—Preferred will be offered to preferred holders at 1-for-3 rate and common will be offered to common stockholders at 1-for-9 rate. **Underwriters**—Dillon, Read & Co. Inc. and Dean Witter & Co. will buy unsubscribed preferred; unsubscribed common will be sold either at public auction or to the underwriters. **Proceeds**—To pay off short-term promissory notes and to carry merchandise inventories and receivables or to replenish treasury funds. The balance would be used for other corporate purposes or construction. Indefinite.

● **Helio Corp., Boston, Mass.**
Oct. 24 (letter of notification) 9,000 shares ($1 par) non-cumulative preferred stock and 9,000 shares ($1 par) common stock. To be sold in units of one preferred and one common share for $25 a unit. No underwriter. To develop prototype of a four-passenger, single-engine "Helioplane."

● **Idaho Maryland Mines Corp., San Francisco, Cal.**
Oct. 20 (letter of notification) 10,000 shares of common stock. To be sold at $2.25 each by Errol MacBoyle, San Francisco. **Underwriter**—E. F. Hutton & Co., San Francisco.

Insurance Co., of Florida, Miami, Fla.
Sept. 7 (letter of notification) 12,000 shares ($10 par) common stock. **Price**—$25 each. **Underwriter**—Atwill & Co., Miami Beach. To complete formation of a stock insurance company.

NEW ISSUE CALENDAR

November 4, 1949

Central & South West Corp	Common
Derby Gas & Electric Corp	Common
Kentucky Utilities Co	Common

November 7, 1949

Central Maine Power Co., 11 a.m. (EST)	Bonds
Central Maine Power Co. 11:30 a.m. (EST)	Preferred
Central Maine Power Co. Noon (EST)	Common

November 9, 1949

Detroit Edison Co	Common
Resort Airlines, Inc	Common
Wabash RR., noon (EST)	Equip. Trust Ctfs.

November 10, 1949

American Bosch Corp	Debentures

November 15, 1949

Associated Telephone Co. Ltd	Bonds
Barclay Oil Co. Inc	Stocks
Black Hills Power & Light Co	Common
Madison Gas & Electric Co	Bonds, Common
Missouri Power & Light Co	Bonds, Preferred
Pennsylvania Electric Co	Bonds, Preferred

November 16, 1949

Clinton Foods, Inc	Preferred
New England Electric System	Common
St. Louis-San Francisco Ry	Equip. Trust Ctfs.

November 21, 1949

Northern States Power Co	Common
Southern Colorado Power Co	Common

November 23, 1949

American Natural Gas Co	Common
Gulf States Utilities Co., 3 p.m. (EST)	Bonds

November 29, 1949

Southern Co.	Common

December 5, 1949

Steiner Paper Corp	Capital Stock

● **Iowa Power & Light Co., Des Moines, Iowa**
Oct. 31 filed $7,500,000 of first mortgage bonds, due 1979. **Underwriter**—Competitive bidding. Bidders may include Kidder, Peabody & Co.; Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co.; Union Securities Corp. and Glore, Forgan & Co. (jointly); The First Boston Corp.; Smith, Barney & Co.; Halsey, Stuart & Co. Inc. **Proceeds**—To pay off $1,500,000 of 2⅛% promissory notes, for construction, and to reimburse the treasury for construction expenditures.

● **J. & R. Chemical Co., Inc., Jeffersonville, Ind.**
Oct. 24 (letter of notification) 6,250 shares ($1 par) common stock and 14,500 shares of 5% cumulative non-participating preferred stock, ($20 par). No underwriter. To buy and install equipment and machinery, construct improvements and buy inventory.

Keller Motors Corp., Huntsville, Ala.
May 10 filed 5,000,000 shares (3¢ par) common. **Underwriter**—Greenfield, Lax & Co., Inc., New York. **Price**—$1 per share. **Proceeds** — To purchase additional plant facilities, tools, dies, jigs, etc.; the balance for working capital. Statement effective Oct. 3 and amendment to registration statement effective Oct. 31. Expected later this month.

Kentucky Utilities Co., Lexington, Ky. (11/4)
Oct. 4 filed 165,500 shares ($10 par) common stock and 25,000 shares of 4¾% cumulative preferred stock ($100 par). Common stock will be offered for subscription by stockholders and employees at $10 a share and will not be underwritten. **Underwriter**—Issue awarded Nov. 2 to A. G. Becker & Co., Inc. on bid of $101.75, less underwriting compensation of $2.25 a share. **Proceeds**—For construction.

● **Louisville (Ky.) Gas & Electric Co.**
Nov. 2 filed $41,000,000 first mortgage bonds, due 1979. **Underwriter**—Competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Blyth & Co., Inc. (jointly); The First Boston Corp. **Proceeds**—To redeem outstanding bonds; buy Louisville Transmission Corp.; prepay bonds of a predecessor, Louisville Lighting Co., and for general purposes.

McCormick & Company, Inc., Baltimore, Md.
Oct. 12 (letter of notification) 600 shares of 5% cumulative preferred stock ($100 par) and 6,000 shares (no par) non-voting stock and 10,000 shares no par) voting stock. **Price**—Preferred, par; voting and non-voting stock, $15 per share. **Underwriter**—Alex. Brown & Sons, Baltimore will offer 1,000 shares of non-voting common stock for working capital.

Madison (Wis.) Gas & Electric Co. (11/15)
Oct. 20 filed $3,000,000 first mortgage bonds, due 1979, and 55,361 shares ($16 par) common stock. **Underwriter**: Bonds to be offered under competitive bidding. Probable bidders include Halsey Stuart & Co. Inc.; Otis & Co.; The First Boston Corp.; Kidder, Peabody & Co.; Equitable Securities Corp.; Smith, Barney & Co. and Robert W. Baird Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; The Milwaukee Co.; Harris, Hall & Co. (Inc.) and Drexel & Co. (jointly); Harriman Ripley & Co.; Central Republic Co.; Kuhn, Loeb & Co. and W. C. Langley & Co. (jointly); Wood, Struthers & Co. **Offering**—Stock is to be offered to present stockholders at the rate of one new share for each five held at $22 a share. **Proceeds**—To retire $2,800,000 of promissory notes and for expansion of facilities. Bids expected Nov. 15.

Mankato (Minn.) Citizens Telephone Co.
Oct. 17 (letter of notification) 1,600 shares (no par) common stock. To be sold to stockholders at $47 each. No underwriter. To buy new switchboard and make expansions to phone system.

● **Middle South Utilities, Inc., New York**
Oct. 28 filed 686,295 shares (no par) common stock. **Offering**—Electric Bond & Share Co. will offer 656,295 shares to its own stockholders of record Nov. 9 at rate of one share for each eight held, and at $12 a share. The offering period is scheduled for Nov. 21 to Dec. 8. Bond and Share plans to distribute 150,010 shares to its stockholders as a dividend, of which 30,000 will be sold to take care of fractional stockholders. **Underwriter**—None. **Proceeds**—E. B. & S. will use the proceeds to retire bank loans.

● **Miners Coal Co., Madisonville, Ky.**
Oct. 28 (letter of notification) $300,000 of income debenture bonds. Price, par. No underwriter. To install, develop and operate a coal mine leased from the Newcoal Corp.

Minnesota Mining & Manufacturing Co.
Oct. 19 filed 75,000 shares (no par) common stock. **Offering**—To be sold to employees of the company and five wholly-owned subsidiaries. **Underwriters** — None. **Proceeds**—To buy in debentures or $4 preferred stock.

Missouri Power & Light Co. (11/15)
Oct. 14 filed $2,000,000 of first mortgage bonds, due 1979, and 20,000 shares of cumulative preferred stock ($100 par). **Underwriters**—Competitive bidding. For bonds: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Equitable Securities Corp.; White, Weld & Co. and Shields & Co. (jointly); Otis & Co.; Carl M. Loeb, Rhoades & Co. and American Securities Corp. (jointly); Harriman Ripley & Co.; The First Boston Corp.; Glore, Forgan & Co. and Hornblower & Wells (jointly). For preferred: Harriman Ripley & Co.; Carl M. Loeb, Rhoades & Co. and American Securities Corp. (jointly); White, Weld & Co. and Shields & Co. (jointly); Glore, Forgan & Co. and Hornblower & Weeks (jointly); Salomon Bros. & Hutzler. **Proceeds**—To retire unsecured promissory notes and reimburse treasury for construction purposes. Bids expected Nov. 15.

New England Electric System, Boston (11/16)
Oct. 14 filed 669,508 shares ($1 par) common stock. **Offering**—To be offered to stockholders of record Nov. 16 at the rate of one new share for each 10 held. **Underwriter**—To be decided under competitive bidding. Probable bidders for common include Merrill Lynch, Pierce, Fenner & Beane; Kidder, Peabody & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co. and Goldman, Sachs & Co. (jointly); Blyth & Co., Inc. and Lehman Brothers (jointly). **Proceeds**—For additional investment in the common stock of subsidiary companies so that the subsidiaries can finance construction programs. Bids expected Nov. 17.

New Jersey Power & Light Co.
June 9 filed 20,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co.; Lehman Brothers. **Proceeds**—Will be applied to the payment of the cost of, or in reimbursement of payments made for, construction of additions and betterments subsequent to April 30, 1949. Sale deferred until later this year.

Northern Ohio Telphone Co., Bellevue, Ohio
Sept. 23 filed 13,575 shares 4½% cumulative preferred stock ($100 par). **Underwriters**—Lawrence Cook & Co. and Cunningham & Co., Cleveland. Price, par. **Proceeds**—To reimburse company for funds spent to buy 22,574 shares of common capital stock of Star Telephone Co., Ashland, Ohio.

Northern States Power Co. (Minn.) (11/21)
Oct. 24 filed 1,584,238 shares (no par) common stock. **Offering**—To be offered to stockholders at the rate of one new share for each six now held. **Underwriter**—To be determined under competitive bidding. Probable bidders: Smith, Barney & Co.; White Weld & Co. and Glore, Forgan & Co. (jointly); Lehman Brothers and Riter & Co. (jointly). **Proceeds**—To repay bank notes issued for construction purposes. Bids expected Nov. 21.

● **Ocean Downs Racing Ass'n, Inc., Berlin, Md.**
Oct. 27 filed 53,372 shares (50c par) common stock. **Underwriter**—None. Price —$2 a share. **Offering**—To be offered stockholders at the rate of four new shares for each five held. **Proceeds**—To pay obligations and for working capital.

Ohio Public Service Co., Cleveland
Oct. 21 filed 2,000,000 shares ($7.50 par) common stock. **Underwriter** — Cities Service Co., which is selling this stock, has asked the SEC for exemption from competitive bidding requirements in order to negotiate an underwriting. Probable underwriters: Merrill Lynch, Pierce, Fenner & Beane and Blyth & Co., Inc.

● **Paden City (W. Va.) Glass Co. and Paden City Glass Manufacturing Co.**
Oct. 27 (letter of notification) $50,000 convertible notes, to be sold to 11 stockholders; $350,000 of promissory notes, to be issued to creditors. No underwriter. For plant repairs, working capital, and to pay creditors.

Pennsylvania Electric Co. (11/15)
Oct. 6 filed $11,000,000 first mortgage bonds, due 1979, and 70,000 shares of series D cumulative preferred stock ($100 par). **Underwriters** — Competitive bidding. Probable bidders for preferred: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.; W. C. Langley & Co., and Glore Forgan & Co. (jointly); Harriman Ripley & Co. For bonds: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Equitable Securities Corp.; Kidder, Peabody & Co.; Kuhn, Loeb & Co., Lehman Brothers and Drexel & Co. (jointly). Bids expected Nov. 15.

Power Petroleum Ltd., Toronto Canada
April 25 filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—S. G. Cranwell & Co., New York. **Proceeds**—For administration expenses and drilling. Statement effective June 27.

● **Progressive Fire Insurance Co., Atlanta, Ga.**
Oct. 28 (letter of notification) 10,000 shares of capital stock. To be offered present stockholders at rate of one new share for each four held and at $27.50 a share, with any remaining shares to be offered to the public at $30 each. No underwriter. To increase the company's surplus. Office, 107 Cone Street, Atlanta, Ga.

● **Resort Airlines, Inc. (11/9)**
Oct. 31 (letter of notification) 59,000 shares ($1 par) common stock, to be offered in behalf of company. **Underwriter**—Marx & Co., New York. **Price**—$5 per share. To be used for equipment and additional working capital in connection with the company's air cruise service.

● **Seder Plastics Corp.**
Oct. 26 (letter of notification) 100,000 shares ($1 par) preferred stock. Price, par. **Underwriter**—David Lowell Terry, Denver. For working capital and for inventories.

Smith, Inc., Fargo, N. D.
Oct. 12 (letter of notification) 2,000 shares of 6% cumulative preferred stock ($25 par) and 15,500 shares ($5 par) common stock. **Price**—Preferred to be sold at $25 and common at $7.75. **Underwriter**—W. R. Olson Co., Fergus Falls, Minn. To retire bank loans.

● **Southern Co., Wilmington, Del. (11/29)**
Oct. 28 filed 1,500,000 shares ($5 par) common stock. **Underwriter**—Competitive bidding. Probable bidders: Morgan Stanley & Co., Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); Blyth & Co., Inc.; Lehman Brothers; Harriman Ripley & Co.; Union Securities Corp. and Equitable Securities Corp. (jointly). **Proceeds**—Additional common stock investments in subsidiary operating companies. Bids expected Nov. 29.

Southern Colorado Power Co. (11/21)
Oct. 17 filed 170,336 shares (no par) common stock. **Offering**—To be offered stockholders at the rate of one new share for each three held. **Underwriter**—Boettcher & Co. and Bosworth, Sullvan & Co., Denver, and Hutchinson & Co., Pueblo, Colo. **Proceeds**—To repay bank loans and for construction. Tentatively expected Nov. 21.

● **Stewart-Warner Corp., Chicago.**
Oct. 21 (letter of notification) 2,000 shares ($5 par) common stock. To be offered to employees at market price under a "Stock Pool Plan." No underwriter. Not to be sold for a profit.

● **Storrs-International Chemical & Refining Co.**
Oct. 27 (letter of notification) 300,000 shares (25¢ par) common stock. **Price**, $1 each. No underwriter, other than company officers. To develop a commercial coal treatment plant. Office, 409 Felt Building, Salt Lake City, Utah.

Sudore Gold Mines Ltd., Toronto, Canada
June 7 filed 375,000 shares of common stock. **Price**—$1 per share (U. S. funds). **Underwriting**—None. **Proceeds**—Funds will be applied to the purchase of equipment, road construction, exploration and development.

● **Sutherland Paper Co., Kalamazoo, Mich.**
Nov. 1 filed 34,400 shares of cumulative preferred stock ($100 par) convertible into common stock prior to 1960. **Underwriter**—Harris, Hall & Co. (Inc.), Chicago. **Offering**—Stock is to be offered to common stockholders at the rate of one share for each 10 held. **Proceeds**—To move and rebuild a paperboard machine, for additional manufacturing and warehouse space, for a new boiler and for working capital.

● **Terhar's Pa-Go Stores, Inc., Ketchikan, Alaska**
Oct. 19 (letter of notification) 1,800 shares of common stock and 800 shares of preferred stock. **Price**—$25 per share. **Underwriter**—Earl C. Chandler, Ketchikan. To build a new store and build up inventory.

Union Oil Co. (Calif.)
Oct. 17 filed 600,000 shares ($25 par) common stock. **Proceeds**—The shares are to be issued in partial payment for all of the 35,000 outstanding shares of capital stock of the Los Neitos Co., an oil producing company.

United Minerals Reserve Corp., Chicago
July 27 (letter of notification) 270,000 shares of common stock. **Price**—$1 each. **Underwriter**—Edward W. Ackley & Co., Boston. For development of mining properties.

Upper Peninsula Power Co.
Sept. 28 filed 154,000 shares of common stock (par $9). **Underwriters**—SEC has granted exemption from competitive bidding. An investment banking group managed by Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane, and Paine, Webber, Jackson & Curtis, may be underwriters. **Proceeds**—Will go to selling stockholders. Consolidated Electric & Gas Co. and Middle West Corp. will sell 120,000 shares and 34,000 shares, respectively.

Western Light & Telephone Co., Kansas City, Kansas
Oct. 19 (letter of notification) 14,162 shares ($10 par) common stock. To be offered to stockholders at $21 each. No underwriter. For construction.

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Prospective Offerings

Butterfield (W. S.) Theatres, Inc.
The Paramount Pictures Inc. invites offers for the purchase of the following stock which it now owns: 37,500 shares of class B stock of W. S. Butterfield Theatres, Inc., and 6,940 shares of class B stock of Butterfield Michigan Theatres Co. Inquiries should be addressed to Sidney M. Markley, Paramount Pictures Inc., 1501 Broadway, New York 18, N. Y.

● **Denver & Rio Grande Western RR.**
Company has applied to ICC for authority to sell $1,000,000 first mortgage series A 3s-4s, due 1993, at not less than 85 and interest from July 1, 1949. Bonds were previously issued and are now held in its treasury. Proceeds would be used to reimburse treasury for funds used in redeeming $1,500,000 Denver & Salt Lake Ry. 1st 4s series A, due 1950, on Jan. 1, 1949.

● **Dow Chemical Co.**
Oct. 25 directors approved the sale of 175,000 shares of common stock, of which 70,000 shares will be reserved for sale to employees and 105,000 shares will be offered stockholders of record Dec. 20 on a 1-for-50 basis, at $44.50 per share. Traditional underwriter, Smith, Barney & Co.

● **Food Fair Stores, Inc.**
Dec. 30 stockholders will vote on a proposal to raise the authorized indebtedness from $5,000,000 to $12,000,000. If proposal is approved company is expected to issue and sell $8,000,000 debentures. The increase is designed to retire $2,700,000 3½% outstanding debentures and to finance expansion of company's supermarket chain. Probable underwriter: Eastman, Dillon & Co.

● **Iowa Public Service Co.**
Oct. 26 announced that corporation plans to issue and sell early in 1950 $5,000,000 of preferred stock, the net proceeds to pay for construction costs, etc.

Kansas City Power & Light Co.
Oct. 25 company announced that it plans to sell $10,500,000 of additional common stock and $20,000,000 of funded securities. Proceeds would be used in its $55,000,000 expansion program planned for completion in 1952. Company plans are to sell $5,000,000 of common stock this year and the balance probably would not be issued until 1951. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Lehman Brothers and Bear, Stearns & Co. (jointly); Equitable Securities Corp.; Kuhn, Loeb & Co.; Salomon Bros. & Hutzler and Union Securities Corp. (jointly); Shields & Co. and White, Weld & Co. (jointly); Smith, Barney & Co.

North Butte Mining Co.
On Nov. 7 stockholders will also vote on granting the management authority to mortgage any or all of the property of the company for not less than $1,000,000, nor more than $3,000,000.

Stock unsubscribed for by stockholders under stock purchase warrants which company plans to issue, will be publicly offered at a price not below $1 per share. Stockholders are to receive rights to purchase two new shares for each share held at par.

● **Northern Natural Gas Co.**
Oct. 25 company proposes to finance its expansion program (estimated to cost $51,840,000) through the sale of debentures, bank loans and possibly by the issuance of some additional common stock.

Rochester Gas & Electric Corp.
Oct. 26 reported corporation plans to issue approximately 119,300 additional common shares early in December through rights to present common shareholders on the basis of one new share for each seven held. The offering is expected to be underwritten by a nationwide group of 700 security dealers, headed by four New York investment banking firms, viz.: The First Boston Corp.; Lehman Brothers; Wertheim & Co. and Merrill Lynch, Pierce, Fenner & Beane, and four Rochester firms, viz.: George D. B. Bonbright & Co.; Sage, Rutty & Co., Inc.; Erickson, Perkins & Co. and Little & Hopkins, Inc.

● **St. Louis-San Francisco Ry. (11/16)**
Bids for the purchase of $4,080,000 equipment trust certificates, due annually 1-15 years, will be received up to Nov. 16. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

South Carolina Electric & Gas Co.
On Oct. 11, company announced plans to issue and sell $10,700,000 in bonds in 1950, 1951 and 1952, $3,000,000 in equity securities in 1950 and $3,000,000 in common stock in 1952, the proceeds to be used to finance in part its $34,000,000 expansion program in the five years from 1949 to 1953. The balance of the funds needed will be obtained from internal sources, including depreciation reserves.

Southern California Edison Co.
Oct. 26 rumored that company may possibly refund its $30,000,000 3¼% bonds of 1964. Probable bidders: The First Boston Corp.; Blyth & Co.; Shields & Co.

Steiner Paper Corp. (12/5)
The Attorney General of the United States of America is inviting sealed bids for the purchase from him at public sale, as an entirety, of 575 shares of capital stock of the corporation. The 575 shares constitute 100% of the issued and outstanding capital stock of the company. The stock is held by the Attorney General as a result of vesting action under Vesting Order dated Jan. 20, 1948, pursuant to the Trading with the Enemy Act. All bids must be received at the Office of Alien Property, Department of Justice, 120 Broadway, New York, by 3:30 p.m. (EST) Dec. 5.

● **Wabash RR. (11/9)**
Company will receive bids up to noon Nov. 9 for the purchase from it of $3,465,000 equipment trust certificates, series B, to be dated Sept. 1, 1949, and to mature $231,000 annually March 1, 1950-1964. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Western Maryland Ry.**
E. S. Williams, President, states that company will decide in near future whether to refinance the first mortgage 4s, due Oct. 1, 1952 ($44,902,000 outstanding) or await maturity. Company intends to create a new mortgage on entire properties which would be much stronger than the mortgage securing the 1st 4s and there would be about $45,000,000 of additional property and equipment added to the security for the new mortgage. Morgan Stanley & Co. and Alex Brown & Sons are reported to be helping the company in an effort to develop an acceptable plan.

Wisconsin Central Airlines
Oct. 20 reported company may do some financing for the purpose of expanding its present routes with larger planes. Probable underwriter: Loewi & Co.

Business and Government Must Compromise

(Continued from page 15)

dollar it spends. Deficit spending in times of prosperity is unnecessary and inexcusable. However, an increased public debt resulting from carefully conceived and executed capital expenditures that will carry their charges, either in revenue or in clearly apparent service value will not ruin the country. In the modern economy, such expenditures may contribute significantly to the maintenance of prosperity; especially so if and when we are able to reduce our outlays for defense.

IV

Turning to government's contribution—the chief way it can encourage business is to stop discouraging business. As is well known, government is now hampering business in three directions: by taxation, regulation, and competition.

V

High overall taxation rates are now inevitable. But the higher the total, the more important it becomes to avoid punitive and self-defeating taxation. In many areas—including the top brackets of income tax—a lower rate is likely to produce more revenue than a higher one. Congress should follow the counsel of disinterested experts in choosing a tax structure which will—as Colbert prescribed — take off the most feathers from the goose with the least amount of squawks—and the least threat to its capacity to lay golden eggs.

VI

Against Government Competition

Government competition with business is unfair and destructive. There should be the strongest possible presumption against such competition. Before the government embarks directly upon any business operation now conducted by free enterprise—e.g., in the field of steam power plants or housing—the need for such action must be demonstrated beyond reasonable doubt, and every effort should have been exhausted to achieve the required results by assisting private enterprise.

VII

Regulation of business should follow the principle that an established business practice is innocent unless proved to be guilty beyond a reasonable doubt. The trouble with business regulation today is not unsound statutes on the books, but rather the administration of their laws and their judicial interpretations along increasingly far-fetched and repressive lines. (Witness the absurd confusion following the Supreme Court's basing-point decision, and the spectacle of "new-dealer" Justice Douglas dissenting from the decision outlawing the S. O. of Cal. agency agreements—on the grounds that such interference by the court will result in increasing monopoly instead of curbing it.)

VIII

Dual Humbleness Needed

Finally, both business and government should be humble enough to recognize that neither has yet found a dependable way to keep the business cycle within tolerable bounds, nor have they been able to join with labor in working out sound and acceptable principles for the prevention of disruptive strikes. To maintain our free-enterprise system in the world of today, it is essential that government, business and labor engage in a continuing joint effort to solve these two overshadowing problems. There is need here not only for good-will and unflagging determination, but also for the transfer of a large measure of our American ingenuity and resourcefulness from the mechanical fields in which it has been so successful into the arena of social and economic thinking.

Patrick O'Malley Joins Saunders, Stiver & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Patrick A. O'Malley has become associated with Saunders, Stiver & Co., Terminal Tower, members of the Cleveland Stock Exchange. Mr. O'Malley formerly was with Francis I. du Pont & Co., Wm. Robbins & Co. and Hirsch & Co.

With John B. Joyce Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—Ralph E. Dunnington, Jr. has become afflicted with John B. Joyce & Co., Huntington Bank Building.

Two With Waddell & Reed

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Joe A. Grand and Harry A. Siemers have joined the staff of Waddell & Reed, Inc., 1012 Baltimore Avenue. Mr. Siemers was previously with King Merritt & Co.

Slayton Co. Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Floyd E. Dixon, Sr., and Lewis A. Dixon have become affiliated with Slayton & Co., Inc., 408 Olive Street.

With R. S. Hays & Co.

(Special to THE FINANCIAL CHRONICLE)

DURHAM, N. C.—W. C. Newton has been added to the staff of R. S. Hays & Co., Inc., 111 Corcoran Street.

Quincy Cass Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—James E. Tucker has been added to the staff of Quincy Cass Associates, 523 West Sixth Street, members of the Los Angeles Stock Exchange.

With Edgerton Wykoff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Meda Spitzbarth is with Edgerton, Wykoff & Co., 618 South Spring Street, members of the Los Angeles Stock Exchange.

Business and Government Together Can Achieve Prosperity

(Continued from page 15)

oped areas in matters like agriculture, health and education.

Fourth: The coordination of business with government policy in foreing affairs. In the field of foreign affairs, it is little recognized, for instance, that the multi-billion dollar investments of our oil companies, as they did in the Near East for a time, could militate against the settled foreign policy of the United States to establish peace there and the independence of Israel.

Fifth: The coordination of government policy with business policy in the field of domestic taxation and economic policy. It is essential that taxes do not kill incentive in business, but at the same time that the tax structure does not encourage incentive which may prove wasteful to our resources.

Need $300 Billion National Income

We are in need of a new technique for enabling business and government to get together to maintain prosperity. We need the technique also to increase national income to the $300,000,000,000 level, as this is essential to support our annual budgets of $40 to $45 billion, which are needed to carry our domestic responsibility to give our people adequate government services, and our foreign affairs responsibility incident to our position of world leadership for the maintenance of peace and security. The Employment Act of 1946 under which the President's Council of Economic Advisors operates is completely inadequate for it covers only the field of government action and government action represents about 20% of the national expendable income. A similar mechanism must be extended to coordinate both the governmental and the private fields of expenditure, production and distribution. For this purpose, a Federal Economic Commission is needed to formulate and work for the achievement of economic goals for our economy by consultation and agreement, but without compulsion.

The commission should, however, have the power to approve contracts in industry and business which will be conducive to the achievement of the economic goals which it establishes, and to permit the negotiation and performance of such contracts under the anti-trust laws. Typical of such agreements would be the standardization of goods, operations and marketing practices with a view toward lowering prices to the consumer and improving quality, stabilization of employment on a year-round basis, establishment of conservation practices for natural resources and priority allocation and inventory control of such commodities. The primary purpose for the establishment of such a commission would be to marshal the organic power of the private economy to generate a stable prosperity with the participation of government to the extent needed to make that possible but without government control.

With A. Ahmadjian Co.

(Special to THE FINANCIAL CHRONICLE)

WHITINSVILLE, MASS.—Albert K. Jamgochian is now with A. Ahmadjian & Co., 70 Church Street.

Joins Dean Witter Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Deigh D. Boyd is now connected with Dean Witter & Co., 632 South Spring Street.

With Wm. Van de Carr

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Leroy D. McGrath has become affiliated with Wm. Van de Carr, 8943 Wilshire Boulevard.

Our Reporter's Report

The new investment market dropped back into the doldrums this week after its recent spurt and it appeared likely that dullness would rule for at least a spell ahead.

This time, however, the lethargy engulfed the new equity section of the market as well as the fixed debt division. Several new stock issues were sold to investment bankers, but the latter did not find the market quite as receptive as it had been a fortnight or so back.

Curiously enough the seasoned equity market gave evidence of underlying strength which might have been expected to induce a great response to the offering of the new securities.

The week's major undertaking involving $30,000,000 of new bonds of the Port of New York Authority, brought out yesterday moved in good style, pointed as it was at institutional investors.

But elsewhere the market was sluggish and appeared to be awaiting more light on the general industrial picture. Through the last four weeks with the steel and coal strikes in full sway this phase of the situation seemed to have little if any noticeable retarding effect.

At the moment, however, with signs pointing to an early adjustment of management-labor differences, it looks as though the caution signals have been set, at least so far as immediate new flotations are concerned.

Two Stock Deals Lag.

The week's two stock undertakings, both utilities and one a preferred issue, encountered a a relatively cool reception when books were opened.

Union Electric Co. of Mo.'s offering of 150,000 shares of new $4 preferred stock, for which the successful bankers paid a price of 100.8399 and reoffered at 102.56 to yield 3.90%, was reported moving, but slowly.

Meanwhile another group reoffering 300,000 shares of common stock of Interstate Power Co. priced at $8.25 a share encountered much the same kind of response, moving but slowly.

Chesapeake & Ohio Common

The Alleghany Corporation disposed of a block of 100,000 shares of Chesapeake & Ohio common stock via a secondary offering after the close of the market yesterday. The stock was distributed by Blyth & Co. at a price of $27.75 per share.

All Sold Sign

Finis was written this week to one of the largest secondary distributions ever undertaken in the bank stock field when it was announced that the last of the huge block of 1,199,554 shares of Bank of America NT&SA stock had been placed.

The bankers who undertook this immense task paid the seller, Transamerica Corp., a total of $51,580,000, it being noted that the stock involved was the precise number of shares which Transamerica had acquired since 1937 by exercise of its "rights" to new shares.

Further unravelling this enormous transaction, Transamerica stated that it had already used a substantial part of the proceeds from the current sale to liquidate its debt to banks incurred primarily in connection with the purchases of the stock.

Hits Fixing Nat'l Income by Gov't Blueprint

Guaranty Trust Co. of New York publication holds it is dangerous foundation on which to build future. Points out practical difficulties of economic blueprint.

According to "The Guaranty Survey," monthly review of Guaranty Trust Company of New York, the recent assertion by President Truman that our national income can be raised from its present level of more than $200 billion a year to more than $300 billion is by no means so sensational as it may appear. A very moderate rate of increase in productivity would be sufficient to bring this about. What is questionable is not the statement that the increase can be achieved but the implication that it should be made a national goal under governmental auspices and responsibility; this is a dangerous foundation on which to build for the future, the publication asserts.

According to the "Guaranty Survey": "The disquieting thing about the President's statement of his objective is that it fits in so closely with what is described in recent reports as a 'ten-year program,' sponsored by high-ranking government economists, that marks an advance into new ground in the field of centralized planning. This economic blueprint not only sets up an official objective ($350 billion) for total output but also for its distribution. The minimum family income, as the President himself mentions, is to rise from less than $2,000 to $4,000. Farm income per capita is to increase by one third. Social-welfare programs, including old-age pensions, unemployment insurance, health and disability insurance, and aid to the needy, are to be expanded at an additional cost of $12 billion a year. The cost of resource development, including soil conservation, forest improvement, river developments, and atomic-energy research and application, is placed at $2 billion yearly; and an equal amount is planned for the improvement of public schools. Housing is expected to absorb an additional $6 billion annually.

"The remainder of the contemplated increase in output, amounting to about one-fourth of the total, would go to higher-income families, business firms, states and cities for highway improvement and development, and other public construction. Of the total increase, roughly half would go to farmers and low-income families, a fourth to social-welfare projects, and a fourth to business firms, higher-income groups, and public construction.

Practical Considerations

"This is an alluring prospect, but a few practical questions suggest themselves. How can the planners be sure that a minimum family income of $4,000 and the other specified distributive shares will be found consistent with balanced wage-price relationships? Is the one-third increase in farm income per capita to be derived from larger marketings, from higher prices, or from governmental subsidies? If from larger marketings, where is such an increase in the market to be found? If from higher prices, how is the nonagricultural worker to be protected against a rise in his cost of living? If from governmental subsidies, what becomes of the prospect for tax reduction? Is it seriously supposed that government, in its role of umpire, can determine what wage-price relationships will be 'fair' and conducive to the needed balance between industrial and personal demand, or that it can perform this function without regard to the proximity of the next election day?

Fallacy of Dollar Income Goal

"An income objective, stated in terms of dollars, is a standing temptation to resort to inflationary measures, because such measures provide a sure and easy way of reaching the goal. The key to economic welfare is not dollar income but physical productivity, and productivity is the result of effort, ingenuity, and risk. These will be put forth by workers, managers, inventors, and investors only in response to adequate economic incentives. Tax laws and regulatory practices in recent years have gone far toward weakening these incentives. Only government can reverse the tendency. Let government concentrate on this problem, and income—real income—will continue to increase without income objectives or ten-year plans."

Two With Day, Stoddard

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—Peter M. Kennedy and Arthur B. Sweeney, Jr. are with Day, Stoddard & Williams, Inc., 95 Elm Street.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

STAMFORD, CONN. — Walter S. Hoyt is with Merrill Lynch, Pierce, Fenner & Beane, 80 West Park Place.

With White, Weld & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Andrew D. Buchan has become associated with White, Weld & Co., 231 So. La Salle Street. He was formerly with the First Boston Corp.

With Boardman, Freeman

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Frank J. Laughlin has become associated with Boardman, Freeman & Co., Inc., 75 Federal Street. He was formerly with F. L. Putnam & Co. and W. H. Bell & Co.

Kidder, Peabody Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Harold E. B. Speight has been added to the staff of Kidder, Peabody & Co., 115 Devonshire Street.

Harry L. Erickson Dead

Harry L. Erickson, Glore, Forgan & Co., New York City, died Oct. 29 in the offices of the firm. He was fifty-five years of age.

DIVIDEND NOTICES

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D. C.—There is the keenest interest here in the Reconstruction Finance Corporation's venture into Kaiser-Frazer Corp., and this interest is heightened by reports that Kaiser is presumably going to use government money to compete with the established Big Three in the auto business in the low-priced field.

RFC has often before conducted an operation in aid of a business where private financing was reluctant to string along with the borrower. However, the agency has reputedly done its utmost to persuade private creditors to leave in at least a part of their money. The RFC in the past has wanted that part to be the largest proportion of the credit possible and its own margin the least possible.

In this case, if RFC has followed precedent in its negotiations prior to its Kaiser loan, it may be inferred that private creditors wanted no piece of the deal. RFC's standard procedure has been first to refer a prospective borrower to any and all possible sources of private credit before even entertaining the idea of a government loan commitment, and then if total private accommodation is not possible, to offer to give a piece of the loan if the private trade will hook on to the deal also.

In the recent official announcement it was revealed that the working capital portion of the $34.4 million loan is to be but $12 million and not the $20 million first indicated to this reporter three weeks ago. The RFC is putting up $22.4 million for tooling, engineering, and designing new car models.

Hence the government, in effect, has involved itself in a rather large equity interest, in the form, however, of a loan with a 10-year maturity. Congress by law limited maximum maturities under the RFC act of a couple of years ago to 10 years. This limit was placed for the avowed reason that any longer maturity would in effect become an equity capital participation rather than a true loan. Congress, when controlled by the Republicans, was hostile to putting RFC into what in effect was equity financing, whatever the form might be.

This $34.4 million represents sizable ratio to the value of the outfit. RFC stated officially that "as a going concern" they had had Kaiser-Frazer Corp. appraised at $58 million. RFC since added $10 million in the form of a loan for 18 months to Kaiser's wholesaling subsidiary. Kaiser also had to throw in several other chips to secure both loans, but there is scant information revealed as to the value of this additional collateral.

What further arouses both governmental and business interest in this loan is that it is made to a comparative newcomer in a fast and toughly competitive business, and at a time when the real competitive dog fight is just beginning to dawn on the motor industry after its plus years of war and post-war production. It is like an amateur playing $100 limit with boys who are pretty slick at the cards.

A more typical RFC deal was that offered last July to the Lone Star Steel Co., Dallas. RFC announced that it would lend $34 million for certain expansion purposes provided the prospective borrower first raised $22 million itself and put in $4 million for working capital.

It would appear as though, except for financing war-plant acquisitions, the prospective Kaiser auto loan was about the biggest purely postwar RFC commitment to one firm, that it represents perhaps a greater proportion of loan to the value of the particular business financed than any since the war, and that the element of speculation is high. All in all, it would seem that RFC by the extent, relatively, of this commitment, is in fact proposing to go a long way farther than has been customary since the war in undertaking a financing problem that is usually considered a private undertaking.

Next year, as this year, the left-wing crowd of the Truman Administration may be expected to press for the idea of government equity financing. One value of the Kaiser auto loan would be to serve notice to the left-wing crowd that there is an agency already set up in government which is willing to pioneer in new and not-so-safe business ground, that perhaps it is not necessary to create a wholly new government equity capital financing agency.

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The idea of government equity capital for new or expanding industry is expected to get a strong push for the sake of New England well before the 1950 election. Administration officials are worried for fear that Republicans might woo New England votes on the theory that government money has gone to finance the West, the South, and other areas, and thus to help draw industry away from New England. The Nov. 20 "Democratic New England Conference on Economic Expansion," a regional Democratic whoop-it-up pow-wow similar to the June meeting in Des Moines and the September meeting in San Francisco, is expected to harp on this note. Secretary Krug of the Interior Department is expected to sell the blessings of prospective Federally-financed power projects to New England.

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In the "reintroduction" of the current year's Canadian Budget, the Minister of Finance provided, among other things, for a 10% tax credit on common dividends extended to all classes of shares, and retroactive to Jan. 1, 1949, and other minor tax relief.

Canada's national income is rated as one-fifteenth that of the U. S. The Dominion has reduced debt in three years by $1,730 million, equivalent for the U. S. of nearly $26 billion. Her outstanding debt stands at nearly $11.7 billion, equivalent to $175.5 billion, versus the current U. S. Federal debt of $256 billion. The Dominion's current year's surplus is still estimated at $87 million, which blown up to U. S. scale would amount to $1.3 billion.

Yet Canada has had two major income tax reductions since the war. One was in July, 1947; the other was on Jan. 1, 1949.

At the same time Canada is turning in this fiscal performance, remarkable by U. S. standards, U. S. Federal officials are saying that it would be beyond the realm of imagination to have a tax reduction and a debt reduction in this country at the same time. The President earlier this year even inferred that expenditures could not be reduced to forestall the current year's deficit, estimated now at $5 billion.

For the long pull, Canada's future envisages the possibility of self-sufficiency in oil, a possibility perhaps of self-sufficiency and an export surplus of iron ore. Should these prospects materialize, they ought one day wipe out the Dominion's U. S. dollar deficit. Canadian imports of U. S. oil, steel and steel semi-manufactures, and coal, are just about equal in a rough way to the Dominion adverse merchandise balance with this country.

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The number of queries as to whether the U. S. will devalue gold or change the gold price really has mystified government officials and well-posted industrial and financial observers alike.

Officials both privately and publicly deny most emphatically that anything of the kind is under consideration. Granted that if it actually were under consideration, officials would still deny it as the prospective sterling devaluation was denied, the question then becomes, is there any reason to expect it?

It is not possible to find, if any exist, a single financially-literate industry or business observer or well-posted opponent of the Administration, who has any expectation that there is in any foreseeable future any prospect of any monkeying with the value of U. S. money or gold. Under some other and vastly worse circumstances, perhaps, but not now or any time that can be forecast.

Furthermore, it is asserted uniformly in informed circles outside as well as in the government, no one can see how it would make either political or economic sense for any change to come in gold.

So the case for monkeying with gold is said to rest only on the prospect that somebody high in government might go completely off the trolley.

* * *

It is now being doubted that the Celler monopoly investigation will produce a serious, Administration-backed program of legislation to amend the anti-trust laws. The Celler inquiry, however, will make useful anti-business political fodder and may produce a scare piece of proposed legislation to dangle out in the campaign, but not really get enacted.

It is said that the Department of Justice actually is pretty well satisfied with the present anti-trust laws, particularly as interpreted by the courts.

In this field, the prospect of final adoption by the Senate of the compromise legislation empowering manufacturers operating in good faith to use freight absorption, delivered pricing systems individually, is in grave doubt. Even though there are said to be flaws in the compromise agreement, any attempt to repair them in a further conference would give the "liberals" gunning for this more time to work up opposition in the Senate and perhaps in the House also, where any further change would also have to be ratified. The Senate has set Jan. 20 as the date for taking up this proposition, but may delay consideration until later.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"Well, if business IS slow, then you don't have ANY excuse for not taking me to Europe!"

Dudley to Direct World Bank Publicity in European Area

William L. Ayers succeeds him as Public Relations Director in Washington.

The International Bank for Reconstruction and Development announced today the appointment of Drew Dudley as Director of Public Relations for Europe, effective Nov. 1. Mr. Dudley, who has been Director of Public Relations at Washington since November, 1946, will make his headquarters at the Bank's Paris office at 67 rue de Lille. He will leave for Paris on Nov. 12.

Mr. Dudley was born in Hanover, N. H., Sept. 23, 1910. He was graduated from Dartmouth College in 1933 with a degree of A.B. Prior to joining the Bank's staff in 1946, he was Chief of the Media Programming Division of the Office of War Mobilization and Reconversion where he acted as liaison between the U. S. Government and the advertising industry. During the early days of World War II, Mr. Dudley was with the Office of War Information and subsequently in the Office of the Secretary of the Navy serving with the rank of Lieutenant Commander. Prior to the war he was the Consumer Sales Director of the William Wrigley Jr. Company, Chicago, Ill.

William L. Ayers will succeed Mr. Dudley as Director of Public Relations. Mr. Ayers joined the Bank as Consultant in Public Relations Feb. 1, 1948, and has been Assistant Director since October of that year. He is a native of Chicago, Ill., and for 10 years was Managing Editor of the Chicago "Journal of Commerce." Subsequently he was Managing Editor of the magazine "Finance," and head of the public relations firm of William L. Ayers & Associates.